ILLINOIS POWER COMPANY

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0432

EXHIBITS SPONSORED BY PEGGY E. CARTER

OCTOBER 10, 2001

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ILLINOIS COMMERCE COMMISSION

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PREPARED REBUTTAL TESTIMONY OF PEGGY E. CARTER

OCTOBER 10, 2001

I. Introduction and Witness Qualifications

1. Q. Please state your name, business address and present position.

A. Peggy E. Carter, 500 South 27th Street, Decatur, Illinois 62521. I am Vice President and Controller of Illinois Power Company ("Illinois Power", "IP" or the "Company").

2. Q. Have you previously submitted testimony and exhibits in this proceeding?

A. Yes, I have submitted direct and supplemental testimony in this proceeding. My direct testimony and exhibits were identified as IP Exhibits 1.1 through 1.30. My supplemental testimony has been marked as IP Exhibit 1.31 and was accompanied by IP Exhibits 1.32 and 1.33 and Corrected Revised IP Exhibits 1.2, 1.3, 1.5, 1.7, 1.9, 1.10, 1.11, 1.22, 1.23, 1.26 and 1.28.

II. Purpose and Scope

3. Q. What is the purpose of your rebuttal testimony?

A. I will respond to issues raised by Illinois Commerce Commission ("ICC" or the "Commission") Staff witnesses Hathhorn, Everson, Pearce, and Lazare. I will also address certain issues raised by Illinois Industrial Energy Consumers ("IIEC") witness Phillips and Citizens Utility Board/Attorney General ("CUB/AG") witness Effron.

4. Q. In addition to your rebuttal testimony in IP Exhibit 1.34, which consists of questions and answers 1 through 166 inclusive, are you sponsoring any other exhibits?

A. Yes, I am sponsoring IP Exhibits 1.35 through 1.62, which were prepared under my supervision and direction.

III. Rate Base

5. Q. What issues will you address in your rebuttal testimony related to rate base?

A. I will respond to the following issues:

A. Functionalization of General and Intangible ("G&I") plant;

B. Inclusion of known and measurable capital additions for G&I plant through June 30, 2002;

C. Accumulated depreciation and accumulated deferred income taxes associated with embedded plant in service through June 30, 2001;

D. The appropriate lead/lag associated with two items within the Company's cash working capital analysis;

E. Capitalization of severance costs;

F. Exclusion of certain deferred income taxes from rate base; and

G. Accumulated depreciation and accumulated deferred income taxes related to plant additions.

6. Q. Are any of your previously filed exhibits pertaining to rate base superseded by exhibits you are submitting with this rebuttal testimony?

A. Yes, the following exhibits reflect changes to my previously filed exhibits:

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6. Q. Are any of your previously filed exhibits pertaining to rate base superseded by exhibits you are submitting with this rebuttal testimony?

A. Yes, the following exhibits reflect changes to my previously filed exhibits:

- * Exhibit 1.35 (supersedes Corrected Revised IP Exhibit 1.5) presents the summary of corporate G&I plant additions. IP Exhibit 1.35 incorporates actual loading rates on corporate G&I plant expenditures through August 2001;
- * Exhibit 1.36 (supersedes Corrected Revised IP Exhibit 1.9) presents the increase in Accumulated Depreciation associated with the pro forma plant additions presented by Mr. Barud and me in rebuttal;
- * Exhibit 1.37 (supersedes Corrected Revised IP Exhibit 1.10) presents the updated calculation of cash working capital incorporating the effect of various revisions since the Company's original filing; and
- * Exhibit 1.38 (supersedes Corrected Revised IP Exhibit 1.11) presents the increase to Accumulated Deferred Income Taxes associated with the pro forma plant additions presented by Mr. Barud and me in rebuttal.

A. Functionalization of General and Intangible Plant

7. Q. Have parties to this proceeding taken exception to the level of G&I plant included in IP's electric distribution rate base?

A. Yes, ICC Staff witness Lazare and IIEC witness Phillips have proposed adjustments to IP's proposed G&I plant component of rate base.

8. Q. What is Staff witness Lazare's proposed adjustment to the functionalization of G&I plant?

A. Staff witness Lazare proposes that "the increase for General and Intangible Plant should be commensurate with the increase in other distribution accounts." (ICC Staff Exhibit 5.0, p.16, lines 339-342). Mr. Lazare's proposal disallows the amount of G&I plant included in IP's rate base above this level, which he calculates to be a 20.91 percent increase in distribution plant balances from the amount allowed by the Commission in Docket Nos. 99-0120/99-0134 (Cons.) ("1999 DST case") to the level of distribution plant requested by IP in this proceeding.

9. Q. What do you understand to be Mr. Lazare's principal concerns regarding the level of G&I plant that IP has assigned to the electric distribution business?

A. I understand the following three factors to be Mr. Lazare's principal concerns relating to the level of G&I plant that IP has included in the electric distribution business rate base:

* Electric ratepayers would be adversely affected by IP's divestiture of generation if the Company's proposed allocation is adopted;
* The Company has not explained the increases in G&I plant over the levels allowed in IP's 1999 DST case; and
* Commission precedent for allocating G&I plant should be preserved.

Mr. Lazare has similar concerns with respect to the level of Administrative and General ("A&G") expenses that IP has included in its electric distribution revenue requirement.

10. Q. Please describe the types of assets that are classified as G&I plant.

A. General plant consists of assets such as office buildings, furniture, computers, vehicles, and other equipment. Intangible plant includes assets such as software programs. Both general and intangible plant may be used in support of one or more lines of business.

11. Q. Do you agree with Mr. Lazare's characterization that IP has failed to remove "generation-related" costs from its distribution revenue requirement and has "shifted costs" to the "regulated utility"?

A. No. As I will show in this testimony, those G&I assets that directly supported IP's fossil and nuclear generating stations were included in the transfer/sale of the generating facilities. To the extent IP continued to provide services or facilities to the new owners of the generating stations in 2000, IP charged the owners for those services and facilities. However, Mr. Lazare's fundamental error is in believing that a portion of IP's remaining G&I plant and A&G expenses are "generation-related". IP's G&I plant and A&G expenses are common costs that support all lines of business in which IP is engaged (i.e., gas, electric transmission and electric distribution). It is the nature of joint and common costs that they are needed to support a single line of business, but can also support additional lines of business without any significant increase. Correspondingly, the elimination of one of several lines of business does not necessarily mean that common costs can be reduced significantly. The labor allocator is one method used to assign such common costs among all of the utility's lines of business for regulatory costing and rate-setting purposes. However, the fact that a portion of IP's common costs in 1997 were allocated to the generation function by use of the labor allocator, in order to set electric delivery services rates, does not make these costs "generation-related." The G&I plant and A&G expenses recorded on IP's books in 2000, after IP sold its generation assets and exited the generation business, remain common costs which support all of IP's lines of business. Consistent with the Commission's requirement in the 1999 DST case, IP has used the labor allocator to allocate these common costs among the businesses in which IP was engaged in 2000. IP has not "shifted costs" to the regulated utility; the G&I plant and A&G expenses of the Company were always costs of the regulated utility.

12. Q. Can G&I plant be directly assigned to a particular line of business?

A. Yes, as Mr. Lazare states at line 250 of his direct testimony, "the key to determining cost allocations is how costs are caused." The same is true with the allocation of G&I plant. The Company presented a detailed asset separation study in the 1999 DST case which identified how each individual asset was actually being used and assigned or allocated the cost of the assets based upon the use of the asset.

13. Q. Did the Commission accept the results of the Company's asset separation study?

A. No, the Commission opted to employ a generic labor allocator to allocate both G&I plant and A&G expenses in proportion to the direct salaries and wages charged to the individual lines of business.

14. Q. What method did the Company employ to allocate its G&I plant in this proceeding?

A. For ratemaking purposes in this proceeding, the Company adopted the labor allocator to assign G&I plant among the lines of business within IP.

15. Q. Does the Company believe this is the most appropriate method to allocate G&I plant?

A. No, the Company continues to believe that an asset separation study, similar to the one IP submitted in support of the functionalization of G&I plant in its last DST proceeding, is superior to the use of a general allocator. A labor allocator can be used as a surrogate for cost causation or actual utilization of assets; however, specific data related to the actual usage of an asset will provide more accurate results for assigning costs.

16. Q. Has Mr. Lazare expressed any concerns as to how IP calculated the labor allocators and applied those allocators to G&I plant?

A. No. Mr. Lazare has not presented any concerns pertaining to how the Company calculated the labor allocators and applied such allocators to G&I plant. Mr. Lazare has not asserted that IP calculated or applied the labor allocators incorrectly, nor has he applied them in a different manner to IP's G&I plant (and A&G expenses) to arrive at a different result. In fact, his recommendation completely ignores the labor allocator. Instead, Mr. Lazare has focused solely on the results produced by the use of the labor allocation methodology in this case.

17. Q. Has IP presented evidence on the reasonableness of its additions to G&I plant?

A. Yes. In the 1999 DST case, IP presented evidence to describe and justify significant G&I plant additions that had been made or were planned subsequent to 1992, when an electric rate base was last established for the Company, through 2000. The test year in the 1999 DST case was 1997. Similarly, in this case, the Company has presented evidence describing and justifying its significant additions to G&I plant in 1998 through 2000 and its significant planned additions to G&I plant from January 1, 2001 through June 30, 2002.

18. Q. Have the structure and nature of the services IP provides changed since the last DST proceeding?

A. Yes. As I noted in my last answer, the test year in the 1999 DST case was the 12 months ended December 31, 1997. At that time, IP was a vertically integrated utility. The Company owned a nuclear generating station, as well as a number of fossil generating plants. Since that time, IP has sold the nuclear facility to AmerGen Energy Company ("AmerGen"), an unaffiliated company. The Company has also transferred ownership of its fossil generating facilities to its parent company, Illinova Corporation, which transferred ownership to another affiliated company, Illinova Power Marketing, Inc. ("IPMI"). These transfers occurred in 1999. (Subsequent to the transfer of the fossil generating facilities to IPMI, Illinova merged with Dynegy, Inc. ("Dynegy") in February 2000. IPMI was renamed Dynegy Midwest Generation, Inc. ("DMG") and became a wholly-owned subsidiary of Dynegy.) As a result, since prior to the start of the 2000 test year, IP has consisted only of the gas, electric transmission and electric distribution businesses. Except for a small ownership interest in a non-utility generator facility at a customer's site, which is equal to .06 percent of electric plant in service, IP owned no generation during the 2000 test year. Similarly, IP recorded only $3,700 of production labor and a total of $11,546 of production O&M expense (i.e., 0.0013% of total electric O&M) in 2000. Thus, IP essentially owned no generation and had no generation labor in 2000. As a result, the allocators developed for this filing do not functionalize any G&I plant to generation.

19. Q. Mr. Lazare asserts that IP's allocation of G&I plant in this case is inconsistent with Ameren's allocation of G&I plant in its current DST case, Docket No. 00-0802. Do you agree?

A. No. It is my understanding that for purposes of its DST filing in Docket No. 00-0802, the Ameren utilities (Union Electric Company ("UE") and Central Illinois Public Service Company ("CIPS")), used a calendar year 1999 test year. I further understand that during 1999, both UE and CIPS still owned and operated generation facilities. Under those circumstances, in allocating common costs and assets to each line of business that those common costs or assets support, it was appropriate for UE and CIPS to allocate a portion of G&I plant to the generation business. The facts are different in this case because IP had exited the generation business prior to the test year, and during the test year owned essentially no generation and had no generation-related labor.

20. Q. Mr. Lazare cites a number of excerpts from IP witness Alec Dreyer's testimony in Docket No. 99-0209. Please explain the nature and timing of that proceeding.

A. Docket No. 99-0209 was a filing made by IP notifying the Commission of its intent to transfer its fossil generating facilities to Illinova, which in turn would transfer these assets into a newly formed affiliate. The filing was made on April 16, 1999. The Commission issued its order approving the transfer of the fossil generating assets on July 8, 1999.

21. Q. Mr. Lazare quotes an excerpt from the testimony of Company witness Dreyer in Docket 99-0209. What were the complete question to and answer from Mr. Dreyer from which this excerpt is taken?

A. The complete question and answer were as follows:

> Q. Will Illinois Power's retail electric customers observe any difference in their electric service after the proposed transfer?
>
> A. No, *Illinois Power's electric customers will see no difference in the level or quality of service they receive, nor will the price they pay increase as a result of the transfer to WESCO.* The transfer of assets from Illinois Power to WESCO has been structured in a manner that enables Illinois Power to meet its service obligations in the same manner as it does today. We recognize that Illinois Power remains the entity required to meet the service obligations defined within the Act, as described in the Company's notice and in the testimony of Messrs. Reynolds and Eimer. *The transaction will be transparent to customers*. Illinois Power will remain the customers' regulated electric utility and, as described in detail in the Company's notice and in the testimony of Messrs. Reynolds and Eimer, will maintain all of its statutory service obligations and will continue to provide adequate, safe, and reliable electric service. (*portion in italics quoted by Mr. Lazare)*

At the time this testimony was submitted, on April 16, 1999, IP did not provide delivery services. In fact, the Commission approved the transfer of the fossil generating assets in an order dated July 8, 1999, and the transfer occurred on October 1, 1999, coincidentally the same date that the offering of delivery services to certain non-residential customers commenced. Later in his direct testimony in Docket No. 99-0209, Mr. Dreyer was asked to summarize, and his answer makes it clear that he was not talking about delivery services rates, which IP was not providing at the time, in the excerpt quoted by Mr. Lazare:

> Q. Please summarize your testimony.
>
> A. Illinova and Illinois Power must transition themselves in the face of restructuring and the changing marketplace. Transferring Illinois Power's non-nuclear generation to an affiliate is a transaction specifically contemplated by Section 16-111(g) of the Restructuring Law and is consistent with the objective to participate in competition. The PPA [power purchase agreement] between Illinois Power and WESCO will ensure that Illinois Power will continue to meet its obligation to provide adequate and reliable service to its tariffed service retail customers. Illinois Power's retail electric customers' base rates are frozen through the mandatory transition period ending December 31, 2004, and there is not a strong likelihood that the transfer would result in the Company being entitled to request a base rate increase under Section 16-111(d). Further, Illinois Power has eliminated its fuel adjustment clause. Therefore, Illinois Power's tariffed service retail customers are insulated from any price risk related to the transfer. Thus, the Commission should conclude that the transfer meets the standards of Section 16-111(g) of the Restructuring Law.

However, even if one were to construe the two sentences of Mr. Dreyer's testimony in Docket No. 99-0209 quoted by Mr. Lazare as a representation that delivery services rates (which had not yet been established at the time of the testimony) would not increase as a result of the transfer, and even if one were to construe the level of G&I plant and A&G expense included in IP's proposed revenue requirement as producing an "increase", as Mr. Lazare apparently believes, that "increase" will occur more than three years after the date of Mr. Dreyer's quoted testimony.

22. Q. Did the Company transfer any G&I plant to Illinova as part of the transfer of the fossil generation facility?

A. Yes. G&I plant located at the power stations or otherwise directly associated with the fossil generation system was transferred to Illinova. The transferred G&I plant included buildings, office furniture and equipment; personal computers and other computing equipment; vehicles; tools, shop and garage equipment; laboratory equipment; power-operated equipment; communications equipment; and various computed software.

23. Q. Did the Company's filing in Docket No. 99-0209 include a listing of the G&I plant being transferred to Illinova, and a summary of the accounting entries associated with the transfer of the fossil generating assets from IP to Illinova?

A. Yes. The Company's 16-111(g) filing included a detailed listing of all assets, including the G&I plant, that was to be transferred. IP Exhibit 1.62 is a copy of the portion of the Company's 16-111(g) filing that listed the G&I plant being transferred. (The dollar values shown on this exhibit are the estimates used in the April 1999 filing, not the final values.) The Company also submitted the proposed accounting entries as part of its 16-111(g) filing. The Company submitted the final accounting entries associated with the transfer of plant after the transaction was completed. The Company's filing in Docket No. 99-0209 also included a certification from the Company's Chief Accounting Officer, as required by Section 16-111(g) of the Public

Utilities Act, stating that "the accounting entries related to the transfer of assets and liabilities from Illinois Power Company to Illinova, are in accordance with the guidelines for cost allocations specified in the Services and Facilities Agreement between Illinois Power and Illinova Corporation as approved by the Illinois Commerce Commission in Docket No. 94-0005."

24. Q. Did the sale of the Clinton Nuclear Station include the sale of any G&I plant to AmerGen?

A. Yes, those assets used in the ordinary course of business to operate the Clinton Nuclear Station were included as part of the sale. G&I assets such as machinery, both mobile and non-mobile, equipment (including computer hardware and software and communications equipment), vehicles, tools, spare parts, fixtures, furniture and furnishings and other personal property used in the ordinary course of business to operate the facility were included as part of the sale. The sale of the Clinton Nuclear Station specifically excluded G&I plant used only incidentally in the operation of the facilities, and assets and systems which were used to service multiple facilities.

25. Q. Would it make any sense to use the labor allocator to allocate a portion of IP's G&I plant to the generation function in this proceeding?

A. No. First, as I have noted, IP has had essentially no generation labor expense subsequent to December 31, 1999. However, putting that implementation issue aside, the more fundamental problem with allocating a portion of IP's G&I plant to generation would be that IP has owned essentially no generation subsequent to December 31, 1999, and its G&I plant is not used to support a generation business function. The labor allocator or other generic allocation formulas can be used to allocate plant that supports several of a company's lines of business among those lines of business for costing and ratemaking purposes. However, there is no basis to allocate a portion of IP's G&I plant to business functions and assets that are now owned by separate legal entities.

26. Q. Is the increase in G&I plant allocated to electric distribution which Mr. Lazare (and IIEC witness Phillips) observe following the divestiture of IP's generation assets and business a function, at least in part, of the deficiencies of the labor allocation methodology?

A. Yes. Consider vehicles as an example. Illinois Power has a substantial investment in vehicles which are recorded in Account Nos. 392 and 396, Transportation Equipment and Power-Operated Equipment, which are General Plant accounts. Many of these vehicles are specialized vehicles such as bucket trucks, backhoes, and other service vehicles which are used only in the distribution business. Use of the labor allocator in the 1999 DST case resulted in a significant portion of the investment in these vehicles being allocated to the generation business, even though the generation function makes no use of these vehicles. With the generation business now divested, application of the labor allocator results in a much larger portion of the investment in vehicles being allocated to electric distribution. However, as I indicated above, vehicles assigned to and used at the power stations (such as equipment used in managing coal stockpiles) were transferred to IPMI and AmerGen as part of the sale of the generating stations.

27. Q. Please explain IP Exhibit 1.39.

A. IP Exhibit 1.39 summarizes activity related to IP's FERC Accounts that comprise the G&I classification (i.e., FERC Accounts 301 through 303 and 389 through 399), as well as production, transmission and distribution plant. The exhibit begins with total electric plant balances at December 31, 1997 and sets forth the additions, retirements, transfers and adjustments for each plant classification through December 31, 2000, as reported in the Company's Form 1 to the Federal Energy Regulatory Commission ("FERC"). The most pertinent information on the exhibit can be found in Columns G and M. Column G reflects the impact of the impairment of the assets of the Clinton Nuclear Station, including related G&I plant, in 1998. In December 1998, IP recognized an impairment loss for Clinton, and wrote down the value of the plant from its then current book value to zero. In recognizing the impairment loss, approximately $43 million of G&I plant was written down to zero. This G&I plant was then included in the sale of assets to AmerGen in 1999. Column M reflects the transfer of the fossil generating assets from IP to Illinova in 1999, and shows that approximately $11 million of G&I plant was transferred with the fossil generating assets.

28. Q. How is this exhibit relevant to the level of G&I plant that should be included in IP's electric distribution rate base?

A. The amounts contained in Column S, Lines 1 through 17 of IP Exhibit 1.39 represent the actual level of G&I plant recorded on IP's books as of December 31, 2000. These assets are deployed in support of the management and operations of Illinois Power's gas, electric transmission and electric distribution businesses. Mr. Lazare seems to imply that a significant portion of IP's G&I plant supports a generation function. This is incorrect. The exhibit shows that $54 million of G&I plant that was previously on IP's books was sold or transferred to the buyers of IP's generating facilities. Those G&I assets on the books of Illinois Power as of December 31, 2000 are associated with, and applicable to, the discharging of IP's responsibilities related to the operations of the gas, electric transmission and electric distribution businesses.

29. Q. Subsequent to the divestiture of its generating facilities, has the Company undertaken additional efforts to reduce its level of G&I plant?

A. Yes. The Company has attempted to consolidate facilities and eliminate unneeded assets. For instance, the Company has closed and sold a facility that was once used to house historical records. Those records are now maintained in the basement of the Company's headquarters building.

The Company has also reflected a pro forma adjustment in this proceeding to reflect the sale of an office building that previously housed the Decatur Public Library. This facility was purchased with the intent that it would house IP's fossil generation management personnel. Plans to use the facility changed with the divestiture of the fossil generation assets, and the Company subsequently made arrangements to sell that building.

The Company will continue to identify and eliminate any assets that are no longer required to support the provision of gas, electric transmission and electric distribution services.

30. Q. Does Mr. Lazare believe the Company should have done something differently with respect to G&I plant and A&G expenses, i.e., other than applying the labor allocator factors to its test year balances, in its filing in this case?

A. Apparently not, based on Mr. Lazare's response to IP's data request number 74. That data request and Mr. Lazare's response are as follows:

74. Explain how Mr. Lazare believes Illinois Power should have used a labor allocator to allocate G&I plant and A&G expense to "generation" in this case in light of the fact that IP had no "generation" labor in the year 2000.

Response: Mr. Lazare believes that when IP divested its generation, it should have reduced G&I Plant and A&G expense accounts that provide the foundation for delivery services ratemaking in a manner consistent with the Commission's Order in Docket No. 99-0134.

Thus, Mr. Lazare believes that IP did not transfer enough G&I plant or A&G expense to the buyers of its fossil and nuclear generation assets, or failed in some other manner simply to get rid of the portion of its G&I plant and A&G expenses that had been allocated to "generation" in the 1999 DST case. As I have indicated, IP transferred to the buyers of the generating stations the G&I plant that were directly related to the assets being purchased (e.g., located at the generating stations). Further, I am unaware of any complaints or concerns expressed by Staff or anyone else at the time of the transfers, or in the proceedings for Commission approval of the transfers, that IP was not transferring enough G&I plant (or A&G functions) to the buyers of the generating assets. However, the most fundamental problem with Mr. Lazare's position is that it assumes that IP could somehow sell to the buyers of its generating assets a portion of each of its bucket trucks, backhoes and other distribution service vehicles, a portion of a personal computer sitting on an accountant's desk and a portion of the desk itself, a portion of its headquarters building and of the IP Plaza Building in Decatur where IP's Call Center personnel are located – portions of all of these G&I plant items were allocated to "generation" by use of the labor allocator in the 1999 DST order. Mr. Lazare's position demonstrates a fundamental lack of understanding of the types of equipment and expenses that make up common costs, and indeed of the very nature of common costs.

31. Q. Has the Company's overall level of G&I plant increased since 1997?

A. Yes, as IP Exhibit 1.39 shows, IP's total G&I plant increased by $14 million (3.7%) from 1997 to 2000. The Company has continued to make necessary and reasonable investments in G&I plant from December 31, 1997 through December 31, 2000, just as it continues to do so today. Individual capital additions to G&I plant between December 31, 1997 and December 31, 2000 in excess of $250,000 are identified and explained in IP Exhibits 1.32 and 1.33 and in Corrected Revised IP Exhibits 2.4 and 2.5. Additions to G&I plant to be placed in service between January 1, 2001 and June 30, 2002 are described in Corrected Revised IP Exhibits 1.5, 2.8 and 2.9 and in IP Exhibit 2.15. The net effect is that IP currently has a similar level of G&I plant as it had in 1997, but it is allocated over a smaller base of wages for IP's lines of business in this case. The end result is a larger allocation of G&I plant to the electric distribution business.

32. Q. Has Mr. Lazare identified any specific assets in IP's G&I plant accounts which he contends are unreasonable, unneeded to support the electric distribution business, or that should have been transferred with the generation assets?

A. No, he has not.

33. Q. How do you respond to Mr. Lazare's position that the increase of G&I plant should be limited to the increase in other distribution plant accounts?

A. Mr. Lazare's position ignores how the G&I assets are actually used, and would prohibit the

Company from recovering the costs of, and a return on those assets.

Further, adoption of Mr. Lazare's recommendation would result in a portion of IP's capital additions to G&I plant from January 2000 forward (i.e., subsequent to divestiture of the generation business) being allocated to something other than the gas, electric transmission and electric distribution businesses. Clearly, post-1999 additions were, and will continue to be, incurred solely in support of the gas, electric transmission and electric distribution businesses and not in support of a generation function. During the year 2000, the Company added approximately $9.7 million of electric utility G&I plant (net of retirements). Therefore, approximately $8.5 million, or 87.96 percent, of the year 2000 G&I plant additions would be applicable to the electric distribution business. As part of this filing, the Company has proposed to include an additional $12.7 million of G&I plant additions that will be placed in service after December 31, 2000. The entire $12.7 million of G&I plant additions are applicable to the electric distribution business. Under Mr. Lazare's proposed adjustment, these additions to G&I plant during the years 2000 and beyond are treated the same as G&I which he argues were used to support the generation function before the generating assets were divested. However, there can be no doubt that the G&I plant additions since January 1, 2000 were made solely in support of the Company's gas, electric transmission and electric distribution businesses. Thus, if the Commission were to adopt Mr. Lazare's methodology, the post-January 1, 2000 additions must be treated differently than the G&I plant on the Company's books as of December 31, 1999. As shown on IP Exhibit 1.40, allowing a proportional increase in G&I plant to the level of distribution plant as of December 31, 1999 compared to the level of distribution plant allowed in the Company's last DST case, and allowing 100 percent of the additions to G&I plant since January 1, 2000, results in an increase in G&I plant of $31,648,000. In contrast, limiting all G&I plant additions since the 1999 DST case to the percentage increase in distribution plant between the 1999 DST case and the proposed level of distribution plant in this filing, as Mr. Lazare proposes, results in an increase in G&I plant of only $22,994,000. At a minimum, Mr. Lazare's proposed adjustment must reflect that 100 percent of the G&I plant additions since January 1, 2000 are used solely in support of the Company's gas, electric transmission and electric distribution businesses.

34. Q. Has Mr. Lazare correctly calculated the impacts of his proposed adjustment to rate base?

A. No, Mr. Lazare failed to reflect the impacts of his proposed adjustment on the level of accumulated deferred income taxes.

35. Q. Have you calculated the impact of Mr. Lazare's adjustment on the Reserve for Accumulated Deferred Income Taxes?

A. No, that calculation cannot be made based on Mr. Lazare's adjustment. Given that Mr. Lazare has not identified specific assets associated with his proposed disallowance, the impact of his adjustment on the Reserve for Accumulated Deferred Income Taxes cannot be accurately calculated. If Mr. Lazare identified specific assets that he believed were not used and useful in support of the Company's electric distribution business, the impact of such an adjustment could be calculated.

36. Q. Does IIEC witness Phillips also express concerns with regard to the amount of G&I plant in IP's proposed rate base?

A. Yes, Mr. Phillips argues that "IP has not presented valid reasons for the initial amount of net Intangible and General Plant …" (IIEC Exhibit 3, p. 9, lines 6-9)

37. Q. What does Mr. Phillips recommend?

A. Mr. Phillips recommends that the net G&I plant only be increased in proportion to the increased amount of O&M expense required for delivery service. However, he does recognize that G&I plant additions may be included to the extent found appropriate by the Commission.

38. Q. How do you respond to Mr. Phillips position?

A. As with Mr. Lazare, Mr. Phillips fails to understand or reflect the differences in the structure of IP since the 1999 DST case. He too appears to be singularly focused on the result of the Company's analyses and faulting the process because of the answer. He fails to identify any specific G&I assets that are unreasonable, imprudent or not used and useful. His recommendation, like Mr. Lazare's should be rejected.

B. Inclusion of Known and Measurable Capital Additions

39. Q. Has CUB/AG witness Effron proposed an adjustment to limit IP's post-December 31, 2000 plant additions?

A. Yes, Mr. Effron has recommended that "post-test year additions should be limited to plant actually placed in service by six months after the end of the test year, or June 30, 2001." (CUB/AG Exhibit 2.0, p. 21, lines 18-20).

40. Q. Has Mr. Effron identified specific proposed capital additions that he believes are unreasonable, unnecessary or unlikely to be made by the Company?

A. No, Mr. Effron appears to simply disallow any additions beyond June 30, 2001.

41. Q. Is such a limitation reasonable?

A. No, the Commission has historically allowed companies to include pro forma adjustments for post test-year additions such as IP is proposing in this case. As Staff witness Hathhorn testifies, a typical rule of thumb has been to allow additions or increased expenses which are reasonably certain to occur within twelve months following the filing of the tariffs, which would be May 30, 2002 in this case. This is consistent with the proposition that operating expenses and plant investment should be representative of those costs incurred by the utility during the first twelve months that the rates are in effect.

42. Q. Is there reasonable certainty that the plant additions for which the Company has proposed a pro forma adjustment will occur within 12 months from the filing date of the Company's tariffs?

A. Yes, the Company has provided significant information to substantiate that the capital additions will be made, both in filed testimony and in response to data requests. I have addressed the non-Energy Delivery capital additions (G&I plant items) while IP witness Barud has addressed the Energy Delivery capital additions (distribution additions and certain G&I plant additions).

C. Accumulated Depreciation Associated with Embedded Plant in Service Through June 30, 2001

43. Q. Please describe CUB/AG witness Effron's proposed adjustment to accumulated depreciation.

A. Mr. Effron proposes that growth in the accumulated depreciation reserve for plant in service as of the end of the test year, December 31, 2000, should be recognized for six months after the end of the test year, i.e., through June 30, 2001 (CUB/AG Exhibit 2.0, page 24). Illinois Power will accept this adjustment with respect to the accumulated reserve for depreciation associated with plant in service as of December 31, 2000, and will also make a corresponding adjustment to Accumulated Deferred Income Taxes. The Company's adjustments for post-test year additions already take into account accumulated depreciation on those additions, as well as related retirements of plant that is replaced by the additions.

44. Q. What is the impact of including the additional accumulated reserve for depreciation?

A. Including an additional six months of accumulated reserve for depreciation increases the reserve for depreciation by $15,945,000, $2,492,000 and $2,830,000 for distribution, general, and intangible plant, respectively, for a total rate base reduction of $21,266,000, as shown on IP Exhibit. 1.41. The corresponding adjustment to Accumulated Deferred Income Taxes increases the reserve for deferred taxes, and therefore reduces rate base, by $10,639,000 as shown on the same exhibit.

D. The appropriate lead/lag associated with two items within the Company's cash working capital analysis

45. Q. Please describe Mr. Effron's proposed adjustment pertaining to Cash Working Capital.

A. Mr. Effron proposes modifications to the lags assigned to Injuries and Damages and to the Invested Capital/Electric Distribution Tax.

46. Q. What is the effect of Mr. Effron's proposed modifications?

A. Mr. Effron states that the effect of his proposed modifications is to reduce calculated cash working capital by $7,437,000 resulting in an adjusted cash working capital allowance amount of $2,696,000.

47. Q. How does Mr. Effron propose to modify the lag associated with Injuries and Damages?

A. By focusing on the claims aspect of insurance coverage for injuries and damages alone, Mr. Effron states that a zero lag is appropriate.

48. Q. Do you agree with Mr. Effron's analysis?

A. No, while it is correct that a zero lag is appropriate on claims, Mr. Effron does not consider the lag effect associated with premium payments made by the Company associated with policies purchased to provide excess injury and damage coverage. These premiums, which are pre-paid at the beginning of a year, have a lag of 182.5 days.

49. Q. What is the effect of considering these premium payments on cash working capital?

A. The effect of considering these premiums and their attendant half-year lag is a positive cash working capital amount of $520,279.

50. Q. How is this amount calculated?

A. The total Company amount associated with these excess coverage policies is $1,628,000. Consistent with how the Company functionalized its expenses, a labor allocator percentage of 57.9 percent was used to derive the amount ascribable to the electric distribution business, resulting in an allocated amount of $942,000. An amount of $98,000 was added to the allocated premiums to reflect known increases in 2001 liability premiums resulting in a total premium amount (including pro-forma adjustments) of $1,040,558. A lag of 182.5 days was applied to this total resulting in a cash working capital requirement of $520,279.

51. Q. How does Mr. Effron propose to modify the lag associated with the Invested Capital/Electric Distribution Tax?

A. Based on his assumption that "all the required payments are made on the designated date for the estimated payments within the year" (CUB/AG Exhibit 2.0, p. 27, lines 2-3), Mr. Effron states that a negative lag of at least 29.75 days should be used when computing the cash working capital requirement associated with the Invested Capital/Electric Distribution Tax. Mr. Effron then calculates a negative cash working capital requirement of $2,124,000 using his estimate of negative lag.

52. Q. Do you agree with Mr. Effron?

A. No, Mr. Effron makes the assumption that all required payments are made on the designated date for each quarter's estimated tax liability.

As shown on IP Exhibit 1.42, the Company issued checks on March 8th, June 2nd, August 28th, and November 27th of 2000 for payments that were due on March 15th, June 15th, September 15th, and December 15th for the quarters ending March 31st, June 30th, September 30th, and December 31st of 2000 respectively. Additionally, the Company issued a check on March 8th, 2001 for the remaining balance due on account of the Invested Capital/Electric Distribution Tax. With the exception of the final true-up payment, which only has a lead associated with it, each payment had both a post-paid lead day amount and a pre-paid lag day amount adjusted for bank float of approximately 2.45 days based on check clearing data. The mid-point of these lead and lag days, weighted by the dollar amounts that were paid, results in a lead time of 25.0253 days.

53. Q. What is the cash working capital impact of this lead time on invested capital/electric distribution tax?

A. This lead time reduces cash working capital by $1,812,000 rather than the reduction of $2,124,000 suggested by Mr. Effron.

54. Q. Have you made other revisions to the cash working capital analysis to incorporate the impacts of other revisions and adjustments to rate base, expenses and return that affect the cash working capital requirements?

A. Yes. As shown on IP Exhibit 1.37, the revised cash working capital requirement, incorporating all the changes (including those resulting from Mr. Effron's proposals) is $3,026,000.

E. Capitalization of severance costs

55. Q. Please explain ICC Staff witness Hathhorn's proposed treatment of capitalized severance costs.

A. Ms. Hathhorn proposes to disallow all severance costs as merger transactional costs. I will discuss the appropriateness of allowing the Company's severance expense later in my testimony. Ms. Hathhorn also recommends, however, that the Company should not capitalize any portion of severance expenses.

56. Q. How do you respond to Ms. Hathhorn's proposal?

A. Ms. Hathhorn's proposal is contrary to the normal accounting for such "A&G" expenses. Prior to leaving the Company, many of the individuals who received severance payments and benefits recorded their time to FERC Account 920, Administrative and General Salaries. Prevailing accounting theory is that such A&G activities typically are performed in support of both the day-to-day management of the Company (i.e., expensed) as well as to manage the construction and addition of assets of the Company (i.e., capitalized). It is standard utility accounting practice to capitalize a portion of the administrative costs that are incurred in support of the construction and addition of assets. Therefore, a portion of the annual salaries of those individuals that are no longer with the Company would have been routinely capitalized. Given that the severance costs were incurred to eliminate certain positions that were no longer required, the Company believes that it is appropriate to record the severance expense in the same manner that the expense that is being eliminated would have been recorded. Therefore, the Company believes that it is appropriate to capitalize a portion of severance expense.

57. Q. Has Ms. Hathhorn accurately calculated the amount of her proposed adjustment related to the capitalization of severance costs?

A. No, she has not. Ms. Hathhorn calculates the portion of her proposed plant in service adjustment associated with depreciation expense and accumulated depreciation based on certain ratios that she calculates. In fact, the adjustments should employ a 2.34 percent distribution depreciation rate for the severance costs capitalized to distribution assets and other depreciation rates for severance costs capitalized to G&I assets. Using Ms. Hathhorn's method, the capitalized severance costs would be fully depreciated in less than three years. Ms. Hathhorn employs a similar methodology for her adjustment to deferred taxes. The result is that Ms. Hathhorn's calculated adjustment overstates the true impact of the intended adjustment.

F. Exclusion of certain deferred income taxes from rate base

58. Q. Does CUB/AG witness Effron propose the elimination of certain deferred tax balances from the determination of rate base?

A. Yes, Mr. Effron proposes to eliminate "certain deferred tax debit balances that are related to reserves, deferred credits, or accrued liabilities that are not recognized in the calculation of rate base." (CUB/AG Exhibit 2.0, p. 28, lines 1 – 3).

59. Q. Do you agree with Mr. Effron's recommendation?

A. No, Mr. Effron's proposal results in an inconsistent treatment of accumulated deferred income taxes. Accumulated deferred income taxes serve as a reduction to the determination of rate base. The balance of the accumulated deferred income taxes is made up of a number of debit balances, which reduce the overall reduction of rate base, and credits, which increase the reduction to rate base. Mr. Effron only excludes certain deferred tax debit balances associated with items that are typically not considered in the determination of rate base. There are also deferred tax credit balances associated with items not considered in the determination of rate base. Therefore, Mr. Effron has selectively applied his recommendation to reduce rate base. His proposed adjustment is incomplete. If the Commission were to determine that those deferred tax balances associated with items that are not considered in the determination of rate base should be excluded, both the debit and credit balances should be excluded.

60. Q. Please explain how deferred taxes are created and the proper regulatory treatment for those deferred taxes.

A. Deferred taxes arise from timing differences between when the Company recognizes income and expenses for book and tax purposes. For example, assets are typically depreciated over shorter time periods for tax purposes than for financial/regulatory purposes. Under tax laws and normalization rules, the tax benefit of accelerated depreciation allowed the utility is not reflected in rates as incurred, but is instead deferred and reflected in rates only as book (regulatory) depreciation exceeds tax depreciation. The result is that tax expense is reflected in rates in the year that it is recorded for financial book (regulatory) purposes. However, the difference between the tax expense for financial purposes (based on book depreciation) and actual tax payments to the government (based on accelerated depreciation) reduces the Company's rate base for cost of service purposes. In effect, the revenues provided for tax expense in excess of actual tax payments represent non-investor-supplied capital. Thus, rate base is reduced by deferred taxes and customers' rates are lower by the effect of the allowed rate of return on the deferred taxes.

Mr. Effron raised a similar issue in a previous IP bundled electric rate case, Docket No. 89-0276. In that docket, Mr. Effron challenged IP's inclusion in rate base of the remaining balance of deferred taxes associated with unbilled revenues. The final order in that proceeding stated:

> The Commission concludes that since this deferred tax is like any deferred tax, arising out of a timing difference between the book treatment and tax treatment of the same expense or income item, it should be treated like other deferred taxes for ratemaking purposes and be reflected in the calculation of IP's rate base. (Commission Order in Docket No. 89-0276, pp. 94-95)

G. Accumulated Depreciation and Accumulated Deferred Income Taxes related to Plant Additions

61. Q. Does the Company accept Staff witness Everson's proposed adjustment to limit proposed capital additions to only funded projects?

A. As discussed by IP witness Barud, the Company has accepted Ms. Everson's adjustment to limit proposed capital additions to those projects that have been approved and funded.

62. Q. Does Staff witness Everson's proposed adjustment to reduce the Company's level of capital

additions accurately reflect the impacts of her proposed adjustment?

A. No, as I discussed with regards to Staff witness Hathhorn's proposed adjustment to rate base to eliminate the capitalization of severance costs, Ms. Everson employs certain ratios to calculate the impact of her adjustment to depreciation expense, accumulated depreciation and accumulated deferred income taxes. The Company has accepted Ms. Everson's adjustment to plant additions but on IP Exhibits 1.36, 1.38 and 1.43 has correctly calculated the related depreciation expense, accumulated depreciation and accumulated deferred taxes.

IV. Operating Expenses

63. Q. Are there any adjustments to operating expenses that have been proposed by Staff witnesses that the Company accepts?

A. Yes, there a number of proposed adjustments to operating expenses to which the Company does not object.

64. Q. Please identify the specific adjustments and the witness proposing each one.

A. The Company accepts the following proposed adjustments:

* Staff witness Hathhorn's adjustment to the Gross Revenue Conversion Factor incorporating a rate for Uncollectibles;
* Staff witness Hathhorn's adjustment to eliminate certain reimbursements to Clinton Power Station employees;
* Staff witness Hathhorn's adjustment to remove the portion of 2000 incentive compensation that was added to base salaries in calculating the adjustment for increased wage and salary rates in 2001;

* Staff witness Hathhorn's adjustment to correct inter-company billings based on the proper allocation factors under the Services and Facilities Agreement;
* Staff witness Pearce's adjustment to exclude the portion of EEI dues applicable to Lobbying expenses; and
* Staff witness Pearce's adjustment to eliminate the Energy Efficiency tax expense.

65. Q. In light of the fact that the Company opposes Staff witness Hathhorn's adjustment to disallow incentive compensation expense, why are you accepting her adjustment to remove incentive compensation payments from the base of 2000 wage and salary expense that was used to calculate the Company's adjustments for wage and salary increases in 2001?

A. As IP witness Hearn testifies, one of the advantages of an incentive compensation program is that incentive compensation payments awarded to employees in one year are not locked into their base compensation in the same way as annual wage and salary increases. The Company's original presentation of the adjustment for 2001 wage and salary increases, in IP Exhibit 1.26, in effect assumed, incorrectly, that the anticipated wage and salary increases to Company employees in 2001 over 2000 would apply to the incentive compensation payments they received in 2000.

66. Q. Are any of your previously filed exhibits pertaining to operating expenses superceded due to changes that you are making in this rebuttal filing?

B. Yes, the following exhibits reflect changes to my previously filed exhibits:

* Exhibit 1.43 (supersedes Corrected Revised IP Exhibit 1.22) presents the increase in depreciation expense associated with the revised level of pro forma plant additions presented in IP's rebuttal case; and

* Exhibit 1.44 (supersedes Corrected Revised IP Exhibit 1.26) presents a corrected level of O&M expense increases for 2001 due to wage and salary expenses; this exhibit now eliminates 2000 incentive compensation payments from the base to which the 2001 wage and salary increases were applied.

67. Q. What issues will you address related to operating expenses in your rebuttal testimony?

A. I will address the following issues in my rebuttal testimony:

A. 1999 Rulemaking Expenses
B. Y2K Amortization Expenses
C. Severance Costs
D. Incentive Compensation
E. Contributions for Community Organizations
F. Functionalization of A&G Expenses and Charges from Dynegy
G. Injuries and Damages Expense
H. Litigation Expenses
I. Amortization Expense for Intangible Plant

A. 1999 Rulemaking Expenses

68. Q. Has Staff witness Hathhorn proposed a modification to the Company's pro forma adjustments related to two separate Commission rulemakings?

A. Yes, Ms. Hathhorn disallows certain expenses related to the Company's participation in Commission rulemakings related to Standards of Conduct/Functional Separation and Affiliate Transactions. Ms. Hathhorn disallows the expenditures because she considers them to be "out of period costs from the test year." (ICC Staff Exhibit 1.0, p. 7, line 153).

69. Q. Please explain the nature of the Company's pro forma adjustment related to these two rulemakings.

A. These two pro forma adjustments consist of two parts. The first part of the adjustment includes in the test year the unamortized expense associated with these rulemakings that was allowed by the Commission in the 1999 DST case. Ms. Hathhorn agreed with this portion of the Company's pro forma adjustment. The second part of the adjustment is to add to the unamortized amount additional costs that the Company incurred beyond those allowed in the 1999 DST case.

70. Q. Can you provide a brief history related to the costs associated with these rulemakings?

A. Subsequent to the passage of the Electric Service Customer Choice and Rate Relief Law of 1997, the Commission initiated a number of rulemakings, and other proceedings related to the restructuring of the electric industry, that were required by the new statute. IP was an active participant in those proceedings and incurred incremental expenses associated with such participation. In the 1999 DST case, the Company proposed pro forma adjustments to amortize the costs of participating in these rulemakings over a three-year period. The costs to be amortized included costs that had already been incurred associated with the two rulemakings as well as anticipated expenses for the remainder of the proceedings. The Commission Staff proposed, and the Commission adopted, a reduced level of anticipated expenses, on the grounds that not all the costs proposed by IP for inclusion in the adjustment met the "known and measurable" standard applied in the DST proceeding. Staff proposed, and the Commission accepted, an amortization of the resulting amounts over a five-year period.

71. Q. Were the expenses for these rulemakings that the Commission, in the 1999 DST case, allowed to be amortized and recovered over a five-year period, incurred during the test year for that case?

A. No. To the contrary, none of the expenses for these rulemakings that the Commission allowed to be recovered in the 1999 DST case were test year expenses. The test year in that case was the twelve months ended December 31, 1997 and the expenses allowed to be recovered were incurred in 1998 and 1999.

72. Q. What additional cost is the Company attempting to recover in this proceeding?

A. In the 1999 DST case, the Commission concurred that the Company should be allowed to recover its costs of participating in these two rulemakings. Certain expenses not yet incurred for these rulemakings were excluded from recovery because they did not meet the "known and measurable" standard. The additional expenses added to the unamortized balance in this proceeding represent the additional actual costs incurred by the Company associated with those rulemakings. The Company's pro forma adjustment simply provides for recovery of the costs associated with the rulemakings that were not allowed in the 1999 DST case because they did not yet meet the "known and measurable" standard.

73. Q. Ms. Hathhorn argues that the inclusion of these additional expenses associated with IP's participation in the rulemakings creates a mismatch between current period operating expenses with current period revenues. (ICC Staff Ex. 1.0, p. 8, lines 162-163). Do you agree?

A. I do not agree with Ms. Hathhorn's position. The expenditures in question are non-recurring costs that the Company was required to incur associated with regulatory proceedings. The

Company should have the right to amortize and recover these expenses.

In support of her argument, Ms. Hathhorn states:

> The Company's current adjustment relates to unique costs from pro forma adjustments in its prior DST case. The Company did not analyze if all the other expenses and pro formas from that case actually were incurred at the level approved in its revenue requirement. Those costs may have been higher or lower; it is most certain the exact amount approved was not the Company's actual experience. This scenario is inherent to the regulated ratemaking process. (ICC Staff Ex. 1.0, pp. 8-9, lines 173-179)

Ms. Hathhorn's position mischaracterizes the purpose and objective of the Company's pro forma adjustment. Ms. Hathhorn implies that the Company is seeking some form of retroactive ratemaking adjustment to recover expenses that were under-budgeted or unanticipated at the time of the last DST proceeding. To the contrary, the Company anticipated these expenditures in the 1999 DST case. The expenditures were disallowed because they did not yet meet the interpretation of the "known and measurable" standard that was employed in that case. The Company's pro forma adjustments in this case simply identify and seek amortization and recovery of the additional actual expenditures of a specific type and purpose that the Commission, in the 1999 DST case, deemed it was appropriate to allow.

B. Y2K Amortization Expenses

74. Q. Please describe Ms. Hathhorn's adjustment related to Year 2000 ("Y2K") expenses.

A. Ms. Hathhorn's proposed adjustment consists of two parts. The first is the functionalization of the Y2K expense. The second part of her adjustment disallows 1999 Y2K expenses as out of period costs.

75. Q. Does the Company concur with Ms. Hathhorn's functionalization of the Y2K expense?

A. Yes, Ms. Hathhorn's functionalization of the Y2K expense is appropriate.

76. Q. What is the impact of accepting Ms. Hathhorn's functionalization of the Y2K expenses?

A. IP Exhibit 1.21 sets forth the $200,000 pre-tax adjustment for Y2K expenses that the Company proposed in its direct case. As shown on IP Exhibit 1.45, by functionalizing the Y2K expenses, the pro forma adjustment is reduced to $35,000.

77. Q. Does the Company concur with Ms. Hathhorn's disallowance of the 1999 costs?

A. No. The Company does not agree with Ms. Hathhorn's proposed disallowance of the 1999 Y2K expenses.

78. Q. Please explain why the Company disagrees with Ms. Hathhorn's position.

A. Similar to the previous discussion related to certain rulemaking expenses, the Commission approved the amortization and recovery of Y2K expenses in the 1999 DST case. Again, most of the Y2K expense allowed in the 1999 DST case was incurred in 1998 and 1999, whereas the test year in that case was 1997. As with the rulemaking expenses, recovery of certain Y2K expenses was not allowed in the 1999 DST case because they did not meet the "known and measurable" standard as applied by the Commission in that case. The Company's adjustment in this proceeding simply seeks similar treatment for the additional Y2K expenses that were incurred in 1999 and 2000 to that which was approved by the Commission in the 1999 DST case.

C. Severance Costs

79. Q. Please explain the Company's pro forma adjustment related to transition employees and severance costs.

A. During 2000, the Company reduced its employee levels. Many of the employees who departed received severance payments and benefits. To reflect this activity, the Company proposed a pro forma adjustment that consists of two parts. The first part reflects the reduction in O&M expenses associated with the reduced number of employees. Specifically, it eliminates 2000 wage and salary expenses for employees that left the Company during 2000 and thereafter. These savings are due to process improvements undertaken in response to the changing nature of the industry. In addition, the Company's 2000 wage and salary expense, which is part of the basis for setting expenses for this case, is lower than it would have been had these employees continued with the Company. The second part of the pro forma adjustment removes the severance costs, which IP incurred in order to realize the expense savings associated with a reduced headcount, from the test year expenses and amortizes the severance expenses over a five-year period.

80. Q. What is Ms. Hathhorn's proposed treatment of the severance costs?

A. Ms. Hathhorn proposes to disallow the severance expenses. She maintains that the expenses are non-recurring, non-operational merger transactional costs.

81. Q. Did Ms. Hathhorn propose any adjustment to the projected savings associated with the reduced number of employees?

A. No, Ms. Hathhorn apparently adopted the Company's adjustment associated with reduced wages, but excludes recovery of the costs that were incurred to achieve the savings.

82. Q. Do you agree with Ms. Hathhorn's treatment of the severance costs?

A. No. The Company actually incurred these expenses in the test year. Further, the expenses were specifically incurred in order to achieve, and in fact resulted in, a reduction in IP's wage and salary expense and related benefits expenses which is reflected in the expenses used to set rates in this case. The reduced wage and salary expense achieved through the incurrence of the severance costs will continue into the future. Therefore, the Company should be allowed to recover the severance expense. I acknowledge that these particular severance expenses are "non-recurring" but that is why they are amortized over a multi-year period for ratemaking purposes.

83. Q. What is the result of Ms. Hathhorn's proposed adjustment?

A. The resulting effect of Ms. Hathhorn's adjustment is to create a mismatch between savings which will be realized, and reflected in rates, due to the workforce reductions, and the costs of attaining such savings. This mismatch would be inappropriate.

Companies are routinely seeking more efficient and economical ways to perform activities. For example, during the 1990s, many utilities engaged in programs to re-engineer the way the companies did business and thereby reduce costs and increase efficiencies. Many of these re-engineering efforts resulted in streamlined processes that reduced costs and improved customer service. Employing Ms. Hathhorn's logic, the companies should not have been allowed to recover the costs of the re-engineering efforts, but the cost savings that resulted from the efforts should have been flowed through to the customers.

In fact, in IP's last gas rate case, Docket No. 93-0183, Staff proposed to disallow the costs of IP's re-engineering activities. The Commission disagreed with Staff and allowed recovery of the re-engineering program costs. The Order in Docket No. 93-0183 states:

> The Commission concludes, based on the evidence of record, that the full projected test year cost of the re-engineering program should be included in rates. The Commission agrees with IP witness Brodsky that this is the type of analysis in which utilities should be engaged in order to improve their service and to lower their costs. The record shows that the savings identified to date can be expected to recur from year to year. Staff's proposed adjustment is unwarranted.

84. Q. Do you agree with Ms. Hathhorn's reasoning that the severance costs should be disallowed because they are merger transactional costs?

A. No. I acknowledge that the Commission has disallowed recovery of merger transaction costs, including, in some cases, employee termination costs, in connection with several mergers of Illinois utilities. The Commission has also allowed recovery of merger transaction costs, including employee termination costs, in connection with other mergers. The Company will address the applicability of the Commission orders cited by Ms. Hathhorn in its briefs in this case. In addition, in previous cases, the Commission has allowed recovery of the costs of enhanced retirement and severance programs that resulted in reductions in employee headcount and, accordingly, in wage and salary and related benefits expense. The Commission allowed recovery of an enhanced retirement program that IP had implemented in IP's 1990 and 1992 electric rate orders, Docket Nos. 89-0276 and 91-0147. In Docket No. 89-0276, IP was allowed to amortize and recover the costs over a five-year period; the amortization period was extended by 46 months in Docket No. 91-0147. Finally, I would point out that the employee reductions and severance payments implemented by IP in 2000 that are reflected in this adjustment were not solely due to the Dynegy merger, but rather were part of a broader effort by IP to restructure its operations in response to the changing business environment, including the divestiture of its electric generation assets and business in late 1999, and the cessation of retail energy marketing activities in 2000.

85. Q. Do you agree with Ms. Hathhorn's characterization of the Commission's treatment of merger transaction costs in Docket No. 99-0419, in which the Commission approved the Dynegy merger with respect to IP's gas utility?

A. No, I do not. The treatment of those costs was not a contested issue in that docket. The Commission's order stated, correctly, that transaction costs related to the gas utility operations portion of the reorganization should not be recovered from IP's gas utility customers because IP did not seek recovery of those costs, and in fact voluntarily committed not to seek recovery of those costs from gas utility customers. IP's petition pursuant to Section 7-204 of the Public Utilities Act for approval of the gas utility portion of the merger, as well as IP's testimony in that docket, expressly stated that IP would not seek recovery of the portion of the merger transaction costs related to gas utility operations, from its gas utility customers.

86. Q. Did IP also commit not to recover the portion of merger transaction costs relating to electric delivery services operations from its electric customers?

A. No. The Company was asked this question in a data request from Staff in Docket No. 99-0419, and expressly excluded recovery of merger transaction costs relating to electric delivery services operations from its commitment not to recover gas utility-related merger transaction costs from gas customers. IP Exhibit 1.46 is a copy of that data request response. Given the facts of Docket No. 99-0419 as I have described in this answer and my previous answer, there is no basis for Ms. Hathhorn's assertion that "it is clear the Commission's intent was for utility customers to not bear any transaction costs due to the merger."

87. Q. In light of your previous answer, how do you respond to Ms. Hathhorn's assertion that there is no reason why electric delivery services customers should have to pay for the severance costs while gas customers do not have to pay these costs?

A. IP's gas rates were last set in 1994. At the time IP was seeking approval of the merger (1999), as well as currently, IP had no plans to file a gas rate case. Therefore, it is unknown when IP's gas utility customers will benefit directly from the reduction in employee levels implemented in 2000. In contrast, in 1999, IP knew it would have another DST rate case in 2001, i.e., this case, in which reduced employee levels and associated wage and salary and pension and benefits costs would be reflected in setting delivery services rates. Since electric delivery services customers will be receiving this benefit, the rates they pay should also reflect amortization and recovery of the severance program costs that were incurred to achieve this benefit.

88. Q. Is IP seeking to recover other transaction costs of the Dynegy merger in its delivery services rates?

A. No. For example, IP is not seeking to include in the revenue requirement legal fees, accountant fees, investment banker fees, costs of printing and distributing proxy statements and other SEC documents, and other, similar costs incurred to implement the merger transaction. However, the employee severance costs will result in a direct benefit to electric customers, namely, reduced headcount. The reduced wage and salary and pension and benefits costs due to reduced headcount are reflected in setting rates in this case. As I have noted, if there had been no merger but IP had implemented an early retirement program in order to reduce employee levels and expenses, prior Commission orders would suggest that the costs of the program would be recoverable over a multi-year period. The severance costs should not be disallowed simply because the employee reduction effort was undertaken, at least in part, in connection with a merger.

89. Q. Do you agree with CUB/AG's witness Effron's position that for purposes of recovery of the severance costs, the amortization should be deemed to have started in 2000?

A. No. While Mr. Effron, unlike Ms. Hathhorn, has recognized that the severance costs should be recovered in delivery services rates, his proposal could result in less than full recovery of the costs, depending on when the next DST rate case occurs. The benefit to customers in terms of reduced costs will not terminate in 2004 (i.e., five years after the employee reductions occurred). Therefore, IP should be allowed the opportunity to fully recover the portion of the severance costs allocated to electric distribution.

D. Incentive Compensation

90. Q. Do you have any comments on Staff witness Hathhorn's proposed elimination of incentive compensation from the test year expenses?

A. Ms. Hathhorn's proposed elimination of incentive compensation ignores today's common business practices related to the use of incentive compensation programs as part of a total compensation package designed to attracted and retain qualified employees. As IP Witness Hearn explains, incentive compensation is a common and necessary component of an overall compensation package in the current environment. Incentive compensation expense is a reasonable and necessary operating expense that the Company should be allowed to recover in its rates.

91. Q. In the event that the Commission rejects the Company's position that the entire level of incentive compensation incurred in 2000 should be a recoverable expense, can you offer any alternative treatments of incentive compensation expense?

A. While I believe that the level of incentive compensation expense incurred during 2000 is an appropriate expense for inclusion in the Company's overall operating expenses in setting rates, the Commission may determine that the actual 2000 expense level is high in relation to the level that more typically would be incurred by the Company for incentive compensation. In such an event, there are four alternatives that the Company would offer. The first alternative would be to include a normalized level of incentive compensation expense in the Company's operating expenses, based on a five-year history. The second approach would be to include one-half of the year 2000 incentive compensation. The third alternative would be to reflect the budgeted level of incentive compensation for 2001. The fourth alternative would be include an amount for additional wages and salary (base pay) expense that IP would incur if it did not have an incentive compensation program.

92. Q. Please explain the first alternative.

A. Staff witness Hathhorn is concerned that the Company's customers would be harmed if the Company were allowed to recover a level of incentive compensation expense that is not paid out to employees if the program goals are not achieved. She is also concerned because there have been changes in the program from year-to-year and variances in annual payment amounts. An appropriate response to these concerns would be to use a normalized amount based on several years' results. By normalizing the level of incentive compensation over a five-year period, there is a greater likelihood that the level of incentive compensation paid out by the Company during a particular year will be greater than the level of expense that the Company recovers from its customers. IP Exhibit 1.47 presents the five-year normalized level of incentive compensation expense.

93. Q. Do you agree with Ms. Hathhorn's assertion that it is not possible to determine a level of incentive compensation expense to use for this case?

A. No. This is exactly the type of situation in which it is appropriate to use a normalized amount for ratemaking purposes based on the average of several years' expense. For example, IP's storm damage costs can vary widely from year to year, and it would be impossible to determine a "normal" amount that one would expect to be incurred in any particular year. In response to these circumstances, the Commission has in the past included in the revenue requirement the storm damage expense amount that is the average of several years' storm damage expenses.

94. Q. Please explain the alternative of allowing 50 percent of the amount of incentive compensation expense incurred in the test year.

A. By including one-half of the actual incentive compensation incurred by the Company in the test year, the Commission would accomplish two objectives. First, the Commission would, correctly, acknowledge that incentive compensation costs are a reasonable and necessary business expense and that some level of incentive compensation must be included in the revenue requirement. Second, by eliminating one-half of the actual 2000 incentive compensation expense, the Commission would effectively create a sharing of the incentive compensation costs between the Company's customers and its shareholders. This alternative also reduces the likelihood that IP will pay less in incentive compensation to its employees than is reflected in the revenue requirement. To the extent IP fully meets the financial and other objectives of the program in a particular year and pay outs a larger amount of incentive compensation to its employees, shareholders will bear the additional expense. IP Exhibit 1.48 sets forth the calculation of an adjustment to include one-half of the test-year incentive compensation expense.

95. Q. Why would the budgeted level of incentive compensation for 2001 be an appropriate amount of incentive compensation to include in test year expenses?

A. The amount of incentive compensation paid in 2000 was higher than the budgeted level for that year. The budgeted amount for 2001 is $9,509,678 on a total Company basis. The Company's budget amount assumes less than full achievement of the program's financial objectives and less than maximum payments to employees. This approach would also substitute a more typical amount of payments for the amount that was paid out in 2000. In addition, under this approach, as with the alternative of using 50% of the actual 2000 amount, if the Company did better in terms of achieving program objectives and paid out more than the 2001 budgeted amount, the additional expense would be borne by shareholders. Finally, this approach would reflect IP's current (2001) incentive compensation program. IP Exhibit 1.49 shows an adjustment to include in operating expenses the portion of the 2001 budget amount that is allocable to electric distribution.

96. Q. Please explain the fourth alternative.

A. Ms. Hearn has estimated the amount of additional base pay expense that IP would need to incur if it eliminated incentive compensation programs and provided its employees' total compensation in wages and salaries. Her estimate of the increased base pay expense, plus related benefits cost, is $6,984,699 on a total Company basis. The portion of this amount that would be allocated to electric distribution is $3,227,160. IP Exhibit 1.50 shows the development of this electric distribution expense and the resulting adjustment to test year electric distribution O&M expense.

97. Q. Did CUB/AG witness Effron propose an adjustment to incentive compensation expense?

A. Yes, Mr. Effron proposes a reduction of $780,000 to jurisdictional incentive compensation expense. He argued that this amount was a non-recurring expense.

98. Q. How did Mr. Effron arrive at his adjustment amount?

A. Mr. Effron appears to have misinterpreted a data request response from the Company. In response to Staff Data Request BAP-6.01, the Company provided a summary of transactions within sub-account 930201. One line item of the summary was entitled "Incentive Compensation Adjustment" in the amount of $1,606,320. A second line item was entitled "Reversal of Accruals" in the amount of ($719,173.64). Mr. Effron has apparently taken the net of the two figures times the T&D allocation percentage of 87.96 to arrive at an adjustment of $780,000, which he claims to be non-recurring incentive compensation expense.

99. Q. Do you agree with Mr. Effron's adjustment?

A. No, Mr. Effron has considered two separate accounting entries to arrive at a faulty conclusion related to incentive compensation expense. The Company records an accrual during a year to reflect the likely incentive compensation earned during the year. When the payments are made in the following year, the accrual is reduced and a true-up is recorded, if necessary. During 2000, the Company recorded an accrual to Account 930 of $1,606,320 to correct the anticipated level of incentive compensation expense that would be paid in the following year. The Company had also accrued expenses in Account 930 during 1999 and 2000 associated with potential union wage increases. At the time, the Company was in contract negotiations with the unions. The Company had accrued a level of increases that were considered a probable outcome of the negotiations. During 2000, the Company reversed the wage accrual. Mr. Effron has mistakenly considered the reversal of the union wage increase accrual to be an adjustment to incentive compensation. Therefore, Mr. Effron's proposed adjustment to incentive compensation expense is unfounded and should not be adopted.

E. Contributions for Community Organizations

100. Q. Has the Commission Staff proposed an adjustment to exclude amounts paid to community organizations and Chambers of Commerce?

A. Yes, ICC Staff witness Pearce has proposed to disallow all amounts paid to community organizations and Chambers of Commerce. (ICC Staff Exhibit 3.0, p. 4, lines 73-82).

101. Q. In your opinion, is Ms. Pearce's adjustment appropriate?

A. No, I believe IP, as well as other companies, have an obligation to support community organizations that improve the quality of life and business environment within the service territory. The activities of these organizations benefit the community as a whole and IP's customers. The expenses for these contributions should be regarded as a reasonable and appropriate business expense. Many of these organizations are focused on improving the local educational systems and providing for those families in their areas that are in need. Other organizations are focused on attracting new businesses to their areas, improving the level and education of the work force, and providing assistance to businesses that have specialized needs. The efforts of these types of organizations assist customers in IP's service territory to maintain jobs or stay in business. Without this assistance, IP would likely have increased uncollectibles and decreasing sales. Therefore, IP's payments to these community organizations are a sound and prudent expense that directly benefits its customers. Accordingly, the Company should be allowed to recover these expenses.

F. Functionalization of A&G Expenses/Charges from Dynegy

102. Q. Do any of the parties to this proceeding question the level of A&G expenses that IP has included in electric distribution operating expenses?

A. Yes, Staff witness Lazare, IIEC witness Phillips and CUB/AG witness Effron each propose different adjustments to the Company's proposed level of A&G expenses.

103. Q. What types of expenses are typically accounted for as A&G expenses?

A. A&G expenses include the costs associated with such functions as accounting, regulatory, legal, human resources, public affairs, executive officers, and administrative staff. Costs associated with office supplies and expenses, outside professional services, property insurance and claims, pensions and benefits, and miscellaneous expenses are also recorded as A&G expenses.

104. Q. Has the Company performed an analysis of its A&G expenses since the test year in the

Company's last DST proceeding?

A. Yes, IP Exhibit 1.51 provides a summary of the Company's total annual electric A&G expenses during the time period December 31, 1997 through December 31, 2000, as reported in the Company's FERC Form 1. The expense levels shown on IP Exhibit 1.51 do not reflect the impact of the functionalization, or any pro forma adjustments, presented in this proceeding. While certain accounts have experienced increases, the total electric A&G has declined approximately 3 percent from 1997 to 2000. In fact, during this time period, A & G expenses increased by 17.9% from 1997 to 1999, but then decreased by 17.4% from 1999 to 2000.

105. Q. Why has there only been a 3 percent decrease in A&G expenses from 1997 to 2000 even though the divestiture of IP's generating assets and the merger with Dynegy occurred in that period?

A. Most of the electric A&G accounts have experienced significant reductions in total expenses from 1997 to 2000. There are three accounts, however, that experienced increased expense levels since 1997: Account 920, Administrative and General Salaries, has increased $5.3 million. Account 923, Outside Services Employed, has increased $25.2 million. Account 925, Injuries and Damages, has increased $7.1 million.

106. Q. Please explain the increase in Account 920, Administrative and General Salaries.

A. The year 2000 expenses recorded in Account 920 include approximately $13 million of severance costs incurred during the year. As I have previously discussed, those costs were incurred to achieve ongoing cost savings. Further, as I have also discussed, the Company has proposed that the portion of severance costs allocable to electric distribution be amortized over a five-year period. Excluding the $13 million of severance costs recorded in 2000, A&G salaries fell by about $7.7 million, or about 38 percent, from 1997 to 2000. Moreover, this A&G decrease does not fully reflect the impact of the headcount reductions achieved in 2000, because the 2000 amounts in Accounts 920 and 926 include compensation paid to employees during 2000 before they departed the Company. The Company has presented an adjustment to remove those costs for ratemaking purposes.

107. Q. Has the Company's headcount changed significantly from December 31, 1997 to December 31, 2000?

A. Yes. IP Exhibit 1.52 summarizes IP's headcount by location/department from December 31, 1997 to December 31, 2000. As the exhibit shows, IP's total headcount has decreased from 3,647 to 2,037. Much of the decline can be directly attributed to either the sale of the Clinton Nuclear Power Station, the transfer of the fossil generating stations to IPMI, or the merger with Dynegy. However, during this period the headcount in the Distribution and Transmission functions was reduced by 131 employees (7%), and the headcount in A & G functions was reduced by 155 employees (35%).

As of December 31, 1997, the Company employed 873 individuals directly attributable to the management and operations of the Clinton Nuclear Power Station. That number actually increased to 924 employees as of December 31, 1998. No such employees were still employed by the Company as of December 31, 2000. Similarly, there were 451 employees associated with the management and operations of the Company's fossil generating facilities as of December 31, 1997. That number also increased, to 506 employees, at December 31,

1998. There were no such employees as of December 31, 2000. Distribution and Transmission functions experienced a headcount reduction from 1,880 employees at December 31, 1997 to 1,749 employees at December 31, 2000. The number of employees associated with A&G functions amounted to 443 as of December 31, 1997. The Company experienced a reduction of 155 employees, resulting in 288 employees providing A&G support as of December 31, 2000.

108. Q. Is any portion of the headcount reduction from 1997 to 2000 in the Distribution and Transmission functions and the A&G functions attributable to the elimination of personnel who performed functions that Dynegy now provides for IP?

A. Yes. Five examples of reductions in IP headcount related to services that Dynegy now provides for IP are the Audit and Compliance Services group, Legal Services, Human Resources, the Financial Business Group and Information Technology. Dynegy now provides the audit function for IP. Therefore, IP's Audit and Compliance Services group was eliminated in 2000. IP's Legal Services Department formerly included shareholder services; this function was eliminated at IP following the merger. The headcount in Legal Services dropped from 24 in 1997 to 12 in 2000. Similarly, many of the human resource functions that were once provided by IP have been consolidated at Dynegy. The Human Services group has experienced a reduction of approximately 28 people, or over half of its 1997 employee headcount. Many of the accounting, financial planning and management, and treasury functions formerly performed at IP are now performed at Dynegy. The headcount in IP's Financial Business Group has been reduced from 80 persons in 1997 to 36 persons in 2000. Finally, a number of Information

Technology functions are being strategically directed and coordinated by Dynegy. Dynegy's IT group supports the shared services discussed above. Illinois Power's headcount in Information Technology dropped from 191 in 1997 to 145 in 2000. As I have previously indicated, some portion of these headcount reductions is also due to the impacts of other initiatives, such as the divestiture of the generation function.

109. Q. Has the Company realized any cost savings associated with the merger with Dynegy?

A. Yes. IP Exhibit 1.53 shows a comparison of the Company's expenditure levels for the twelve months ended December 31, 1997 and December 31, 2000 for each of the categories for which Dynegy bills IP for support services. As the exhibit shows, the Company has experienced significant savings in many of these A&G functions since the merger. Further, the savings shown on this exhibit do not include the impacts of inflation from 1997 to 2000, which would increase the savings. That is, functions performed in 1997 which have been eliminated would have cost more to perform in 2000 due to inflation. In addition, this exhibit does not incorporate the Company's proposed ratemaking adjustment for the transition employees in 2000.

110. Q. Why did IP's Information Technology costs increase from $20,323,000 in 1997 to $24,569,000 in 2000?

A. There has been an explosion in the use of Information Technology at Illinois Power during this period, just as there has been in many businesses. In order to keep up with the internal demands for IT services, it was necessary to make greater use of outside contractors and consultants to meet short-term needs. These resources are more costly in the short-term than hiring additional employees, although they can also be terminated on short notice. In addition, qualified IT personnel were in great demand throughout business, industry and government during this period, which tended to drive up pay scales for these personnel.

111. Q. What expenses are reflected on IP Exhibit 1.53?

A. IP Exhibit 1.53 reflects all direct expenses charged to specific A&G functions that were impacted by the merger. Therefore, the exhibit includes all expenses associated with labor, materials and supplies, contractors and other expenses incurred by the groups.

112. Q. Please explain the increase in Account 923, Outside Services Employed, from 1997 to 2000.

A. The increase in Account 923 during the year 2000 is primarily attributable to the billings to IP associated with services now provided by Dynegy. This increase includes the 2000 expense for bonuses paid to Dynegy executives that were allocated to IP; IP has proposed a pro forma adjustment to eliminate the expense for these bonuses. The expense for these bonuses was approximately $8.9 million. I presented this adjustment in IP Exhibit 1.30. Excluding the expense for these bonuses, the 2000 expense for Outside Services Employed is approximately $26.9 million, versus $10.6 million in 1997.

113. Q. Please summarize the billings from Dynegy to IP for services provided by Dynegy.

A. IP Exhibit 1.54 summarizes the billings to IP for services provided by Dynegy during 2000, by major functional categories. The billings reflected on IP Exhibit 1.54 exclude the expense for bonuses paid to Dynegy executives that were allocated to IP.

114. Q. Please describe the nature of the services that are performed by Dynegy on behalf of Illinois Power.

A. IP Exhibit 1.55 provides a description of the services performed by Dynegy on behalf of IP by functional area. Not unlike other diversified corporations, the parent company (i.e., Dynegy) provides direction and guidance on many administrative matters. The local operating company (i.e., IP) is responsible for execution of the services.

115. Q. Can you provide an example?

A. Human resources is a good example. Dynegy establishes the corporate direction on issues related to compensation, benefits, recruiting, affirmative action/equal employment opportunities, and diversity, as well as other issues. IP's local human resource personnel are responsible for working with IP employees to understand and administer the corporate policies, procedures and programs. As I noted earlier, IP's human resources group has been reduced from 53 employees in 1997 to 25 employees in 2000.

116. Q. How are the costs of these services provided by Dynegy billed to IP?

A. The costs for these services are billed to IP in accordance with the Services and Facilities Agreement approved by the Commission in Docket No. 99-0114.

117. Q. Please comment on Mr. Lazare's references to estimates of cost savings anticipated from the Illinova-Dynegy Merger, that were provided in 1999.

A. Mr. Lazare is correct that when the Illinova Dynegy Merger was announced, operating expense savings of $40 million to $50 million were anticipated. However, he neglects to mention that these estimates were for the entire merged organization, not just for Illinois Power. Only a portion of the savings realized by the merged organization would be realized by, or allocated to, IP. Further, a portion of any savings realized by, and allocated to, IP, would presumably be realized by or allocated to the gas business and the electric transmission business. In other words, assuming the projected operating expense savings of $40 million to $50 million were realized by the merged organization, a much smaller portion of those savings would be realized by or allocated to IP's electric distribution business. Nonetheless, as IP Exhibit 1.51 shows, Illinois Power's total A&G expenses were reduced by $15,131,000 from 1999 to 2000.

Moreover, in Docket No. 99-0419, the Company also indicated that an anticipated 5% reduction in the combined 6,500 person workforce of Illinova and Dynegy was expected. This would equate to a 325 person headcount reduction for the entire organization. As IP Exhibit 1.52 shows, IP's headcount in the Distribution and Transmission and A&G Functions was reduced by a total of 369 persons from December 31, 1999 to December 31, 2000.

118. Q. Please explain the increases in Account 925, Injuries and Damages, from 1997 to 2000.

A. Expenses recorded in Account 925 increased $7.1 million in 2000 over 1997 levels. The increase is primarily attributable to a $5.5 million accrual booked in 2000 associated with pending litigation claims. As I will discuss later in my rebuttal testimony, the Company is proposing to amortize the accrual over a 3-year period. With this $5.5 million accrual removed, 2000 expenses increased $1.6 million over the 1997 expense levels.

119. Q. Please describe ICC Staff witness Lazare's proposed adjustment to the Company's A&G expenses.

A. Mr. Lazare proposes to limit the increase in A&G expenses over the amount included in the distribution revenue requirement in the 1999 DST case to the percentage increase in the direct O&M expense accounts to which the A&G expenses relate. As was discussed earlier in my rebuttal testimony, Mr. Lazare proposed a similar limitation on G&I plant. IIEC witness Phillips proposed a similar limitation on A&G expenses.

120. Q. Have Mr. Lazare or Mr. Phillips identified specific A&G activities or costs that they believe are excessive?

A. No, Mr. Lazare and Mr. Phillips appear to focus solely on the overall level of A&G expenses assigned to the electric distribution business in comparison to the 1997 test year amounts, as opposed to the review of any specific activities or costs or of the methodology employed by the Company to functionalize the A&G expenses.

121. Q. Did the Company employ the method of functionalizing costs that the Commission required in the 1999 DST case?

A. Yes, the Company utilized a labor allocator to functionalize costs, as required by the Commission's decision in the 1999 DST case. However, in 2000, unlike 1997, the Company no longer owned generating facilities and accordingly, incurred essentially no labor expenses associated with the generation function.

122. Q. Is a labor allocator the best method of allocating common costs?

A. No, as I mentioned earlier in this testimony, the key to the assignment and allocation of costs is to identify the cost drivers of those costs. While a labor allocator is a surrogate for cost causation that the Commission has used for regulatory purposes, it is not reflective of actual business transactions.

123. Q. Please elaborate on the process employed by the Company to functionalize its A&G expenses for purposes of this regulatory proceeding.

A. The Company has an internal process for allocating costs between the gas and electric businesses. The Company began with the A&G expenses that were assigned or allocated to the electric business, as reported in the Company's 2000 Federal Energy Regulatory Commission ("FERC") Form 1 annual report. The electric portion of A&G expenses was allocated to the electric transmission and electric distribution businesses employing a labor allocator. The Company calculated the labor allocators based upon the direct labor expenses incurred by each function. IP Exhibit 1.4 sets forth the calculation of the labor allocators.

124. Q. Has any party questioned the calculation of the labor allocators set forth on IP Exhibit 1.4?

A. To my knowledge, no party has questioned the calculation of the labor allocators.

125. Q. Why would the labor allocator produce different results in this proceeding compared to those approved in the Company's 1999 DST case?

A. At the time of the last DST case, the Company owned generating facilities and had generation function labor. Subsequent to December 31, 1999, IP does not own such facilities and has essentially no generation labor. Therefore, there are fewer lines of business and associated labor dollars over which to allocate common costs.

126. Q. Mr. Lazare has questioned whether IP's A&G functions continue to provide services to the new owners of the nuclear and fossil generating facilities formerly owned by IP. During the test year, did IP provide any services to AmerGen, the company that purchased the Clinton Nuclear Station?

A. Yes, IP Exhibit 1.56 provides a summary of the services provided by IP to AmerGen during calendar year 2000.

127. Q. Please describe the nature of the services provided to AmerGen and how those services were priced.

A. Illinois Power provided AmerGen the use and support of various Illinois Power corporate systems and programs, as shown on IP Exhibit 1.56. The services were provided to AmerGen during the period of transition of Clinton Nuclear Station to AmerGen corporate systems and programs. The specific services provided were accounts payable; Public Affairs nuclear emergency support and facilities; payroll processing; labor relations; safety and health services; affirmative action plan and government report services; environmental services; financial systems and general consulting; and desktop computer support. These services included support labor, facilities, communication equipment and other related assets necessary to perform the service. The services provided were priced using fully distributed cost as a basis and included a level of markup determined by data obtained from benchmarking studies and/or market based pricing, where available.

In addition, vendor related fees incurred by IP for services provided to AmerGen, such as pagers, cellular phone service, long distance/leased circuits charges, and software fees, were reimbursed to IP at cost by AmerGen. Illinois Power's total billing to AmerGen for services in 2000 totaled $11,160,347.

128. Q. Does IP continue to provide support services to AmerGen?

A. Illinois Power is still providing AmerGen with the lease of the Backup Emergency Operations Facility in Decatur. This service is estimated to continue through November 30, 2001. The prices, terms and conditions for any future services provided by IP to AmerGen will be negotiated between IP and AmerGen and a separate contract issued for those services.

129. Q. How are the costs for those services that IP performs on behalf of AmerGen accounted for by IP?

A. Labor and expenses related to services performed on behalf of AmerGen are charged to Account 417.1, Expenses of Nonutility Operations.

130. Q. How have the revenues received from AmerGen for services provided by IP been accounted for by IP and treated for purposes of this proceeding?

A. Revenues received from providing the services to AmerGen are credited to Account 417, Revenues from Nonutility Operations. Both the expenses and the revenues are recorded to below-the-line accounts and therefore have been excluded from consideration in the Company's revenue requirement to be established in this proceeding. As a result of this accounting, neither the revenues received for performing these services, nor the cost of the services, were included in setting IP's proposed DST revenue requirement.

131. Q. At the time of the filing with the Commission relating to the transfer of the fossil generating assets to IPMI, was it expected that Illinois Power would continue to provide many A&G functions to IPMI?

A. Yes, at the time of the filing, which was made on April 16, 1999, it was anticipated that IP would continue to perform many of the A&G type functions on behalf of IPMI and that IPMI would be charged for those services in accordance with the Company's Services and Facilities Agreement ("S&FA") which had been approved by the Commission. However, as Mr. Dreyer testified in Docket No. 99-0209 in the excerpt quoted in Mr. Lazare's direct testimony, it was anticipated that in the future IPMI could develop internal capabilities to provide some or all of these services, or could elect to obtain the services from third party providers.

132. Q. During the 2000 test year, did the Company provide any administrative, overhead and support services to IPMI (now known as DMG)?

A. Yes, IP Exhibit 1.57 provides a summary of the actual billings from IP to IPMI during calendar year 2000.

133. Q. Please describe the nature of the support services provided by IP to DMG during 2000 and how those services were priced.

A. IP provided DMG the use and support of Illinois Power corporate systems and programs, as shown on IP Exhibit 1.57. The specific services provided were purchasing, contract administration, mail service, corporate records support, printing services, garage maintenance, public/government affairs, advertising, drug testing, AA/EEO administration, staffing, compensation, payroll, labor relations, safety, health services, general tax support, financial systems and general consulting, desktop computer support, and engineering support. The services included support labor, facilities, communication equipment and other related assets necessary to perform the service.

The services provided by IP to DMG were priced using fully distributed cost as required by the Services and Facilities Agreement. Additionally, as part of the payroll services, expenses for employee benefits, payroll deductions, stock match, and incentive compensation were billed to DMG. The total billings by IP to DMG in 2000 were $9,533,754.

134. Q. How have the expenses incurred and revenues received by IP for services provided to DMG

been treated for purposes of this proceeding?

A. Labor and expenses for employees providing services to DMG were charged directly to Account 146, Accounts Receivable from Associated Companies. The charges to Account 146 represented fully loaded costs, including employee-related expenses, such as LESOP, pensions, OPEB and group insurance. IP did not recognize any revenue for services provided to DMG. As I just explained, the fully distributed costs for the services provided by IP to DMG were charged to Account 146. The payments received from DMG reduced Account 146, and thus, no revenue was recognized. As a result, any cost impacts of the provision of services to DMG have been removed from IP's revenue requirement in this docket.

135. Q. Was the level of services provided by IP to DMG during the year 2000 consistent with the level of such services that was anticipated at the time of the filing with this Commission to transfer the fossil generating assets?

A. No, the Company provided only a small percentage of DMG's A&G services during calendar year 2000.

136. Q. Why has there been a lower level of services provided by IP to DMG compared to the level that was originally anticipated in the Company's testimony in Docket No. 99-0209?

A. There have been several material changes to the Company's operating environment since the filing in Docket No. 99-0209. At the time that the filing was made in April 1999 in Docket No. 99-0209, IP was a wholly owned subsidiary of Illinova. IPMI had been formed as a separate subsidiary of Illinova. Subsequent to the filing in Docket No. 99-0209, Illinova and its subsidiaries merged with Dynegy, Inc. As I previously explained, following the merger, many of the A&G functions that were once performed by IP were taken over, in whole or in part, by Dynegy. These include services such as human resources, financial planning and management, cash management and treasury, insurance and claims, internal auditing, public affairs, some legal services, and some procurement services. Thus, many of DMG's administrative support functions are now provided directly by Dynegy.

137. Q. Is IP still providing services to DMG?

A. Yes. The services still being provided by IP to DMG are payroll, communications and server usage to support payroll and connections to corporate offices, financial services general consulting, and engineering support. These services include support labor, facilities, communication equipment and other related assets necessary to perform the service. The services are priced to DMG using fully distributed costs as required in the Services and Facilities Agreement.

138. Q. During the test year, did IP provide services to Dynegy?

A. Yes, IP Exhibit 1.58 provides a summary of the services provided by IP to Dynegy during calendar year 2000.

139. Q. Please describe the nature of the services provided to Dynegy and how those services were priced.

A. The services provided to Dynegy were for information technology programming of Dynegy computer applications, and labor charges incurred by IP to respond to Dynegy requests and participate on corporate sponsored teams. The services provided by IP to Dynegy were priced using fully distributed costs as required by the Services and Facilities Agreement. The total billings by IP to Dynegy for services in 2000 were $3,717,846.

140. Q. How are those services that are performed on behalf of Dynegy accounted for by IP?

A. Labor and expenses for employees providing services to Dynegy are charged to Account 417.1, Expenses of Nonutility Operations. Loadings on these costs are also charged to Account 417.1. These costs are accumulated in Account 417.1 each month. In the following month, IP records the receivable for the services provided to Dynegy. The entry debits Account 146 and credits Account 417.1. In addition, operations expense is credited for the costs of IP information technology ("IT") employees that provide services to Dynegy, and Account 146 is debited. The rate charged to Dynegy for IT services is an average wage rate plus labor loadings. IP charged Dynegy for IP's fully distributed costs for these services.

141. Q. How have the revenues received by IP for services provided to Dynegy been treated for purposes of this proceeding?

A. IP did not recognize any revenue for services provided to Dynegy. As I previously explained, the costs for the services provided to Dynegy were charged to Account 146, and operations expense and Account 417.1 were reduced accordingly for these costs. The payments received from Dynegy reduced Account 146 and thus, no revenue was recognized. As a result of this accounting treatment, the operating expenses that are the basis for IP's proposed revenue requirement in this case do not include costs of providing services to Dynegy.

142. Q. Does IP continue to provide support services to Dynegy?

A. Yes. The services that IP currently provides to Dynegy are for information technology programming of Dynegy computer applications, and labor charges incurred by IP to respond to

Dynegy requests and participate on corporate sponsored teams.

143. Q. What appears to be the reason for the increases in IP's A&G expenses since 1997, as allowed in the 1999 DST case, that Mr. Lazare and Mr. Phillips have identified?

A. As I have described, IP's actual total A&G expenses decreased from 1997 to 2000 by three percent, and by more than three percent when certain expenses that IP has proposed to remove for ratemaking purposes are excluded. Therefore, the predominant reason for the increase in A&G expenses allocated to the electric distribution business in this case, over the level used to set rates in the 1999 DST case, is that in 1997 IP still owned generating facilities and had a generation function, whereas by 2000, IP had divested its generation facilities and had essentially no generation function or generation labor. Therefore, the 2000 A&G expenses, although lower on a total Company basis than the 1997 test year A&G expenses, are being allocated among fewer lines of business using the labor allocator.

144. Q. Should Mr. Lazare's and Mr. Phillips' proposals be adopted?

A. No. The Company has explained the differences in the levels of total Company A&G expenses between 1997 and 2000. Neither Mr. Lazare nor Mr. Phillips has identified specific A&G expenses which are improper or excessive. The A&G expenses that IP incurred in 2000 were common costs incurred in support of IP's gas, electric transmission and electric distribution lines of business. The Company has employed a labor allocator in a manner consistent with the Commission's decision in the 1999 DST case to allocate these costs among its existing lines of business.

145. Q. Has CUB/AG witness Effron proposed certain reductions to the Company's A&G expenses?

A. Yes, Mr. Effron has proposed three adjustments to the Company's A&G expenses. First, Mr. Effron proposes to eliminate all charges from Dynegy. Second, Mr. Effron proposes to eliminate an accrual for certain claims in Account 925, Injuries and Damages. Third, Mr. Effron proposes to eliminate legal fees for one litigation matter. I will discuss the second and third of these proposed adjustments in subsequent sections of my testimony.

146. Q. Please describe Mr. Effron's adjustment to eliminate all charges from Dynegy.

A. Mr. Effron asserts that the major driver for the increase in A&G expenses over the level allowed in the 1999 DST case is the amount charged to Account 923 for services provided by Dynegy. (CUB/AG Exhibit 2.0, p. 13, lines 17-18). He does not believe that IP has provided sufficient explanation of the increase in overall A&G expenses or justification for the charges from Dynegy; therefore, he proposes that the charges from Dynegy be excluded.

147. Q. Is Mr. Effron correct that the major driver behind increased A&G expenses over the 1997 test year amount from the 1999 DST case is the amount charged to Account 923, Outside Services Employed, for charges from Dynegy?

A. He is correct that on a total Company basis, charges from Dynegy are the reason for the increase in expenses recorded in Account 923 in 2000 as compared to 1997. However, as I showed earlier, total Company A&G expenses in 2000 were actually lower than they were in 1997. As I have also shown, $11,300,005 of A&G costs incurred by IP prior to the merger have been eliminated as a result of the merger (before taking into account the effects of inflation and IP's proposed ratemaking adjustments.). As I explained in responding to Staff witness Lazare and IIEC witness Phillips, the major driver in the increase in A&G expenses proposed by IP for inclusion in the electric distribution revenue requirement in this case, versus the level of A&G expenses included in the electric distribution revenue requirement for the 1997 test year in the 1999 DST case, is the fact that in 2000 IP no longer was in the generation business and had essentially no generation labor.

148. Q. Does Mr. Effron identify specific A&G services, activities, or costs that are unreasonable, excessive or unnecessary?

A. No, Mr. Effron simply proposes that all charges from Dynegy be disallowed. However, while Mr. Effron is correct that IP's direct case filing did not contain a discussion and explanation of the charges from Dynegy for A&G services during the 2000 test year, I have now provided that explanation.

149. Q. Has Mr. Effron correctly calculated his proposed adjustment to eliminate the costs associated with services provided by Dynegy to IP?

A. No. While I disagree with Mr. Effron's proposed adjustment, if the Commission were to accept the proposed adjustment, the dollar amount of the adjustment would need to be corrected. Mr. Effron appropriately reduced his proposed adjustment by the amount of Dynegy executive bonuses, however, he reflects the wrong level of expenses associated with the bonuses. The correct amount associated with the bonuses is $7,445,000, versus $7,825,000 used by Mr. Effron.

G. Injuries and Damages Expenses

150. Q. Please explain Mr. Effron's proposed adjustment to Injuries and Damages expenses.

A. Mr. Effron has proposed that $5.5 million of Injuries and Damages expenses be removed from test year expenses. He concludes that this amount, which is associated with an accrual for potential claims, distorts test year expenses.

151. Q. Please explain the nature of the $5.5 million accrual.

A. The Company is currently involved in, or expects to be involved in, certain legal proceedings, the outcomes of which are not yet clear, but for which there is likely some financial exposure. The Company created a liability and expensed $5.5 million in the year 2000 to cover the potential claims resulting from these legal proceedings.

152. Q. Why does the Company create an accrual for potential damages associated with litigation?

A. Given the nature of the IP's business, it is not unusual for the Company to be involved in a number of legal proceedings. While IP typically pays smaller settlements and claims at the time that they are finalized, the Company attempts to identify and reflect potentially significant exposures by accruing expenses and creating liabilities associated with any major claims and litigation. The Company's creation of the accrual is consistent with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"). SFAS 5 states that an estimated loss from a loss contingency should be charged to expense and a liability recorded if both of the following conditions are met:

* Information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements; and
* The amount of the loss can be reasonably estimated.

IP recognized an expense for these three claims in December 2000 because it was probable that a liability had been incurred and IP could reasonably estimate the loss.

153. Q. Is it appropriate to include the accrued amount in test year expenses?

A. Settlements and damages paid in response to claims and lawsuits are a legitimate and necessary operating expense. Therefore such claims and any resulting judgment or damages should be a recoverable expense.

154. Q. Is the entire \$5.5 million accrual representative of an ongoing level of injuries and damages?

A. IP Exhibit 1.59 shows the level of IP's injuries and damages incurred during each of the last five years. Due to the inclusion of the \$5.5 million accrual, the test year expenses are higher than recent historical levels. Therefore, the Company is now proposing to amortize the \$5.5 million accrual over a three-year period.

155. Q. Why is the Company proposing a three-year amortization period?

A. The three-year amortization period is based upon two factors. First, the delivery services rates established in this proceeding are expected to be in effect for approximately three years, (i.e., from early 2002 until early 2005). Therefore, the expense would be fully amortized when new rates are established in the future. Second, litigation such as that for which the accrual was established can take two to five years to be brought to resolution.

156. Q. What is the effect of the Company's proposed amortization of the claims accrual?

A. As shown on IP Exhibit 1.60, removing the claims accrual expense from the test year and amortizing the expense over a three-year period results in a net reduction to operating expenses of \$3,225,000.

H. Litigation Expenses

157. Q. Please describe Mr. Effron's proposed adjustment to Outside Services expense relating to the

"Duke Engineering" litigation.

A. Mr. Effron has proposed that certain legal expenses be excluded "because 1) the expenses *do not appear* to be of the type that would be incurred on a normal continuing basis; and 2) *there might be* a future recovery related to this litigation, which would offset the costs." (*emphasis added)* (CUB/AG Exhibit 2.0, pp. 10-11, lines 22 –23 and 1 – 2).

158. Q. Please describe the nature of the litigation to which the proposed adjustment applies.

A. The litigation stems from a suit filed by an independent contractor and IP's countersuit associated with work performed at the Clinton Nuclear Power Station during the time that IP owned the facility. When the facility was sold, IP retained the rights to the lawsuit and any resulting judgment.

159. Q. Should Mr. Effron's proposed adjustment be adopted?

A. No. Mr. Effron's proposed adjustment is contrary to the concept of a test year. The level of operating expenses established as part of a test year are supposed to be indicative of the level of expenses that will be incurred in a typical year. Mr. Effron offers no position as to whether the level of outside legal expenses is, as a whole, representative of a typical year. Instead, he singles out a specific litigation matter and offers conjecture as to whether the expenses would be incurred on an ongoing basis and whether there might be recovery of some expenses at an undefined time. While the Company has not suggested that each individual expense item will be incurred each year, the level of expenses, in aggregate, are representative of the level of expenses that the Company would expect to incur in a given year.

Further, it is not atypical for the Company to incur legal expenses on a case that does not commence and conclude within a given year. Nor does the Company know from year to year in what type of litigation it will be involved. Experience has demonstrated, however, that there is a strong likelihood that there will be some type of litigation which will require the Company to expend funds for outside legal assistance. To exclude these legal expenses simply because *"there might be"* recovery at some point in time is unreasonable.

160. Q. Could the Company create a work order and charge the legal expenses incurred to date to such a work order, as proposed by Mr. Effron?

A. By creating a work order, the Company would effectively be creating a deferred asset against which any potential judgments would be offset. Such treatment raises a number of regulatory issues related to how to reflect the deferred asset should be reflected in rate base and how the Company would ultimately recover/refund any excess expenses or proceeds.

161. Q. Is there an alternative approach for the treatment of the legal fees associated with this litigation?

A. Yes. The Company proposes to amortize these litigation expenses over a three-year period. The Company's proposed treatment would appropriately allow for the recovery of the expenses, while at the same time normalizing the level of expenses incurred during the year.

162. Q. What is the effect of the Company's proposed amortization of the "Duke Engineering" litigation expense?

A. As shown on IP Exhibit 1.61, removing the litigation expenses associated with the "Duke Engineering" litigation from the test year and amortizing the expense over a three-year period result in a net reduction to operating expenses of $687,000.

I. Amortization Expense

163. Q. Has CUB/AG witness Effron proposed an adjustment to amortization expense?

A. Yes, Mr. Effron proposes to reduce the level of annual amortization expense based upon his belief that at the current rate of amortization the Company's net intangible plant will be completely amortized before new rates are established.

164. Q. Do you agree with Mr. Effron's position?

A. No, I do not.

165. Q. Please explain.

A. Mr. Effron's position might have some validity if IP were not continually adding additional intangible plant. This is not the case. As can be seen on IP Exhibit 1.39, IP has added intangible plant in each year 1997 through 2000. Further, as IP witness Barud and I have testified, IP is continuing to add intangible plant in 2001 and 2002. Therefore, the Company is not expected to reach a fully amortized level of intangible plant in the foreseeable future.

166. Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

ILLINOIS POWER COMPANY
Adjustment for Corporate Capital Additions
For the Period January 1, 2001 through June 30, 2002

Line No.	Program (A)	Program Area (B)	Total Company Adjustment (C)	Jurisdictional Allocator (D)	Jurisdictional Pro Forma (E)
1	720	Central Computing and Admin	$ 3,356	57.9%	$ 1,943
2	941	Records Management	51	57.9%	29
3	1035	Printing Services	56	57.9%	32
4	1048	Administrative Services	487	57.9%	282
5	1049	Building Maintenance	797	57.9%	462
6	1167	Purchasing and Materials Control	309	57.9%	179
7	2246	Distributed Computing	3,109	57.9%	1,800
8	2289	WAN(Wide Area Network)	529	57.9%	306
9	2290	LAN (Local Area Network)	12,256	57.9%	7,096
10	2291	PBX/Centrex	752	57.9%	435
11	2292	Voice	29	57.9%	17
12	2293	Other	224	57.9%	130
13	2301	Application Development - Infrastructure	163	57.9%	94
14	2304	AD - Infrastructure to Capital	1,562	57.9%	904
15	2359	AD - Enhancements	128	57.9%	74
16	2360	AD - Capital	3,494	57.9%	2,023
17		Retirements	(12,675)	57.9%	(7,339)
18		Total	$ 14,627		$ 8,469

ILLINOIS POWER COMPANY
Adjustment to Reserve for Accumulated Depreciation and Amortization
(Thousands of Dollars)

Line No.	Adjustment	IP Witness Sponsoring Adjustment	Adjustments to Plant	Accumulated Depreciation - Distribution Plant	Accumulated Depreciation - General Plant	Accumulated Amortization - Intangible Plant	Total Adjustment
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Energy Delivery Capital Additions	Barud	$ 69,881 **(1)**	$ 20,137	$ 67	$ (130)	20,074
2	Corporate Capital Additions	Carter	8,469	-	7,310	(299)	7,011
3	Load Research Project Additions	Jones	1,606	(19)	-	-	(19)
4	FAS 109 Gross Up	Carter	(2,216)	717	75	-	792
5	Plant Transferred from CWIP to UPIS	Barud/Carter	8,458	-	(74)	(255)	(329)
6	Facilities No Longer in Use	Barud/Carter	(7,346)	-	6,934	-	6,934
7	Total		$ 78,852	$ 20,836	$ 14,311	$ (684)	$ 34,463

Line No.		Electric Distribution	Electric General Plant	Electric Intangible Plant	Total
8	**Note (1):**				
9	Capital additions (Revised IP Exhibits 2.6, 2.9 and 2.10, respectively)	$ 79,029	$ 1,973	$ 1,303	$ 82,306
10	Retirements related to the above additions	(12,355)	(70)	-	(12,425)
11	Additions net of retirements	$ 66,674	$ 1,904	$ 1,303	$ 69,881
					To Col. C., Line 1

ILLINOIS POWER COMPANY
Adjustment for Cash Working Capital
(Thousands of Dollars)

		Jurisdictional Pro Forma (in Thousands of Dollars)				
Line No.	Description	Unadjusted Cash Working Capital	Pro Forma Adjustments	Adjusted Cash Working Capital	Lag/(Lead) Days	Working Capital (Required) Provided
	(A)	(B)	(C)	(D)	(E)	(F)
1	**OPERATING REVENUES ($000)**	309,595	(5,682)	303,913		
2	Return on Equity	(85,402)	-	(85,402)		
3	OPEB	(2,062)	25	(2,037)		
4	Deferred Income Taxes	(6,776)	(2,042)	(8,817)		
5	Investment Tax Credit	573	-	573		
6	Depreciation	(42,532)	(3,393)	(45,925)		
7	*Total Cash Operating Revenues*	173,396	(11,092)	162,304	36.0265	16,020
8	**OPERATING EXPENSES**					
9	**Operating and Maintenance Expenses**					
10	Payroll	32,944	12	32,956	(14.0266)	(1,266)
11	Injuries and Damages - Claims	8,942	(2,582)	6,360	-	-
12	Injuries and Damages - Premiums	942	98	1,041	182.5000	520
13	Property Insurance	(1,406)	1,878	472	182.5000	236
14	Pensions/Benefits	9,060	(5,241)	3,818	(25.932999)	(271)
15	Other O&M	78,918	(13,676)	65,242	(32.6142)	(5,830)
16	Uncollectible Accounts	1,281	-	1,281	(241.3740)	(847)
17	*SubTotal*	129,739	(19,609)	110,130	51.0523	(7,459)
19	**General Taxes**					
20	Employer FICA	4,473	(327)	4,147	(11.8461)	(135)
21	Invested Capital Tax/Electric Distribution Tax	26,426	-	26,426	(25.0253)	(1,812)
22	Property Tax	1,319	23	1,341	(399.7019)	(1,469)
23	Franchise Tax	809	-	809	(62.0000)	(137)
24	Public Utility Taxes	-	-	-	-	-
25	Municipal Utility Taxes	-	-	-	-	-
26	ICC Assessment	-	-	-	-	-
27	Other Taxes Not Income	561	-	561	(32.6142)	(50)
28	*SubTotal*	33,589	(304)	33,285		(3,603)
29	**Current Income Taxes**					
30	Federal	8,246	7,694	15,940	(34.1250)	(1,490)
31	State	1,822	1,700	3,523	(45.8250)	(442)
32	*SubTotal*	10,069	9,394	19,463		(1,933)
33	**TOTAL COST OF SERVICE**	173,396	(10,519)	162,877		(12,994)
34	Cash Working Capital - Operations					3,026
35	Adjustment for Revenue Taxes					-
36	Total Cash Working Capital					$ 3,026

ILLINOIS POWER COMPANY
Adjustment to Accumulated Deferred Income Taxes
(Thousands of Dollars)

Line No.	Description	Federal Deferred Income Tax	State Deferred Income Tax	Total Jurisdictional Deferred Tax
	(A)	(B)	(C)	(D)
1	EDEL Capital Additions	$ 1,793	$ 396	$ 2,190
2	Corporate Capital Additions	1,066	233	1,300
3	Load Research Meter Project	27	6	33
4	CWIP to Plant In Service	238	52	289
5	Facilities no Longer in Use	(208)	(46)	(255)
6	Net Adjustment	$ 2,916	$ 641	$ 3,557

ILLINOIS POWER COMPANY
Summary of Plant Account Activity
For the Year Ended December 31, 1998

Line No.	Plant Classification	FERC Account No.	Account Description	Balance as of 12/31/97	1998 Additions	1998 Retirements	1998 Adjustments	1998 Transfers	1998 Balance as of 12/31/98
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	Intangible	301	Organization	574,717	-	-	(574,717)	-	-
2	Intangible	302	Franchises and Consents	48,338	-	-	-	-	48,338
3	Intangible	303	Miscellaneous Intangible Plant	84,394,181	18,786,409	-	(4,007,921)	-	99,172,669
4			**Total Intangible Plant**	**85,017,236**	**18,786,409**	**-**	**(4,582,638)**	**-**	**99,221,007**
5	General	389	Land and Land Rights	4,027,800	42,318	-	(492,661)	-	3,577,457
6	General	390	Structures and Improvements	88,439,484	10,282,945	(373,488)	(14,065,029)	-	84,283,912
7	General	391	Office Furniture and Equipment	86,483,620	11,427,277	(2,461,442)	(15,561,569)	-	79,887,886
8	General	392	Transportation Equipment	36,352,973	1,542,330	(1,507,806)	(1,062,443)	-	35,325,054
9	General	393	Stores Equipment	2,161,389	26,122	(15,820)	(283,118)	-	1,888,573
10	General	394	Tools, Shop and Garage Equipment	10,444,561	255,627	(58,176)	(3,073,775)	-	7,568,237
11	General	395	Laboratory Equipment	5,979,673	92,649	(152)	(1,189,474)	-	4,882,696
12	General	396	Power Operated Equipment	2,053,650	71,791	(36,365)	(134,257)	-	1,954,819
13	General	397	Communication Equipment	48,340,485	2,106,105	-	(2,209,595)	-	48,236,995
14	General	398	Miscellaneous Equipment	1,841,826	44,364	-	(426,237)	-	1,459,953
15	General	399	Other Tangible Property	-	-	-	-	-	-
16			**Total General Plant**	**286,125,461**	**25,891,528**	**(4,453,249)**	**(38,498,158)**	**-**	**269,065,582**
17			**Total General and Intangible Plant**	**371,142,697**	**44,677,937**	**(4,453,249)**	**(43,080,796)**	**-**	**368,286,589**
18									
19	Production	310-346	Total Production Plant	4,877,408,139	92,314,492	(16,937,220)	(3,772,976,773)	-	1,179,808,638
20	Transmission	350-359	Total Transmission Plant	331,609,345	31,345,526	(930,309)	(21,521,572)	-	340,502,990
21	Distribution	360-373	Total Distribution Plant	1,109,782,396	76,260,398	(7,850,066)	-	-	1,178,192,728
22			Total Electric Plant In Service	6,689,942,577	244,598,353	(30,170,844)	(3,837,579,141)	-	3,066,790,945

ILLINOIS POWER COMPANY
Summary of Plant Account Activity
For the Year Ended December 31, 1999

					1999				
Line No.	Plant Classification	FERC Account No.	Account Description	Balance as of 12/31/98	Additions	Retirements	Adjustments	Transfers	Balance as of 12/31/99
	(A)	(B)	(C)	(I)	(J)	(K)	(L)	(M)	(N)
1	Intangible	301	Organization	-	-	-	-	-	-
2	Intangible	302	Franchises and Consents	48,338	-	-	-	-	48,338
3	Intangible	303	Miscellaneous Intangible Plant	99,172,669	3,782,174	(1,145,115)	(748,627)	(1,951,929)	99,109,171
4			**Total Intangible Plant**	**99,221,007**	**3,782,174**	**(1,145,115)**	**(748,627)**	**(1,951,929)**	**99,157,509**
5	General	389	Land and Land Rights	3,577,457	(2,027)	(34,667)	-	-	3,540,763
6	General	390	Structures and Improvements	84,283,912	1,706,813	(280,700)	(952,473)	(4,186)	84,753,366
7	General	391	Office Furniture and Equipment	79,887,886	11,826,533	(1,332)	(2,041,511)	(3,164,138)	86,507,438
8	General	392	Transportation Equipment	35,325,054	3,740,348	(891,094)	98,817	(1,308,561)	36,964,564
9	General	393	Stores Equipment	1,888,573	-	-	(4,469)	(180,051)	1,704,053
10	General	394	Tools, Shop and Garage Equipment	7,568,237	904,241	-	(746,692)	(2,807,207)	4,918,579
11	General	395	Laboratory Equipment	4,882,696	444,777	-	75,381	(1,006,092)	4,396,762
12	General	396	Power Operated Equipment	1,954,819	-	(3,533)	-	(40,681)	1,910,605
13	General	397	Communication Equipment	48,236,995	2,767,844	-	(49,603)	(715,369)	50,239,867
14	General	398	Miscellaneous Equipment	1,459,953	(128,517)	-	159,262	(268,195)	1,222,503
15	General	399	Other Tangible Property	-	-	-	-	-	-
16			**Total General Plant**	**269,065,582**	**21,260,012**	**(1,211,326)**	**(3,461,288)**	**(9,494,480)**	**276,158,500**
17			**Total General and Intangible Plant**	**368,286,589**	**25,042,186**	**(2,356,441)**	**(4,209,915)**	**(11,446,409)**	**375,316,009**
18									
19	Production	310-346	Total Production Plant	1,179,808,638	81,927,339	(3,092,424)	-	(1,257,477,898)	1,165,655
20	Transmission	350-359	Total Transmission Plant	340,502,990	3,774,280	(1,980,835)	972,538	(87,190,870)	256,078,103
21	Distribution	360-373	Total Distribution Plant	1,178,192,728	70,101,000	(11,348,468)	-	87,190,870	1,324,136,130
22			Total Electric Plant In Service	3,066,790,945	180,844,805	(18,778,168)	(3,237,377)	(1,268,924,307)	1,956,695,897

ILLINOIS POWER COMPANY
Summary of Plant Account Activity
For the Year Ended December 31, 2000

					2000				
Line No.	Plant Classification (A)	FERC Account No. (B)	Account Description (C)	Balance as of 12/31/99 (N)	Additions (O)	Retirements (P)	Adjustments (Q)	Transfers (R)	Balance as of 12/31/00 (S)
1	Intangible	301	Organization	-	-	-	-	-	-
2	Intangible	302	Franchises and Consents	48,338	-	-	-	-	48,338
3	Intangible	303	Miscellaneous Intangible Plant	99,109,171	3,082,702	(467,556)	-	-	101,724,317
4			**Total Intangible Plant**	**99,157,509**	**3,082,702**	**(467,556)**	**-**	**-**	**101,772,655**
5	General	389	Land and Land Rights	3,540,763	-	(120,717)	-	-	3,420,046
6	General	390	Structures and Improvements	84,753,366	2,596,566	(1,305,613)	-	-	86,044,319
7	General	391	Office Furniture and Equipment	86,507,438	3,724,694	-	-	-	90,232,132
8	General	392	Transportation Equipment	36,964,564	2,384,561	(1,850,918)	-	-	37,498,207
9	General	393	Stores Equipment	1,704,053	4,469	-	-	-	1,708,522
10	General	394	Tools, Shop and Garage Equipment	4,918,579	636,780	-	-	-	5,555,359
11	General	395	Laboratory Equipment	4,396,762	(201,378)	(206,568)	-	-	3,988,816
12	General	396	Power Operated Equipment	1,910,605	505,935	-	-	-	2,416,540
13	General	397	Communication Equipment	50,239,867	867,880	-	-	-	51,107,747
14	General	398	Miscellaneous Equipment	1,222,503	53,338	(12,365)	-	-	1,263,476
15	General	399	Other Tangible Property	-	-	-	-	-	-
16			**Total General Plant**	**276,158,500**	**10,572,845**	**(3,496,181)**	**-**	**-**	**283,235,164**
17			**Total General and Intangible Plant**	**375,316,009**	**13,655,547**	**(3,963,737)**	**-**	**-**	**385,007,819**
18									
19	Production	310-346	Total Production Plant	1,165,655	-	-	-	-	1,165,655
20	Transmission	350-359	Total Transmission Plant	256,078,103	8,666,710	(1,523,219)	-	-	263,221,594
21	Distribution	360-373	Total Distribution Plant	1,324,136,130	77,835,555	(9,316,326)	-	-	1,392,655,359
22			Total Electric Plant In Service	1,956,695,897	100,157,812	(14,803,282)	-	-	2,042,050,427

ILLINOIS POWER COMPANY
Alternative Calculation of Staff Witness Lazare's Calculation of Allowable General Intangible Plant
(000s)

Line No.	Description (A)	Source (B)	Amount (C)	Percentage Increase (D)
1	Distribution Plant (Excl. G&I Plant)			
2	Allowed Plant in Docket Nos. 99-0120/99-0134 (cons.)		$ 1,209,931	
3	Distribution Plant As of December 31, 1999 (per FERC Form 1)	FERC Form 1	1,324,136	
4	Increase	Line 2 - Line 1	114,205	9.44%
5	General & Intangible Plant			
6	Allowed Plant in Docket Nos. 99-0120/99-0134 (cons.)		109,978	
7	Proportional Increase	Line 6 x Line 4%	10,381	
8	2000 G&I Plant Additions	FERC Form 1	8,525	
9	Proposed 2001 - 2002 G&I Plant Additions	AD-016	12,742	
10	Increase in G&I Plant	Line 7 + Line 8 + Line 9	31,648	

ILLINOIS POWER COMPANY
Adjustment to Accumulated Reserve for Depreciation and Deferred Income Taxes
(000s)

Line No.	Accumulated Reserve for Depreciation	Jurisdictional Balance at 12/31/00	2000 Deprec Exp	6 mos of 2001	Total (Credit to Reserve)
	(A)	(B)	(C)	(D)	(E)
		AD-008	AD-012	(C) * 50%	
1	Distribution	$ (573,562)	$ 31,890	$ 15,945	$ (15,945)
2	General	(47,759)	4,983	2,492	(2,492)
3	Intangible	(49,696)	5,659	2,830	(2,830)
4	Total	$ (671,017)	$ 42,532	$ 21,266	$ (21,266)

	Accumulated Deferred Income Taxes	Jurisdictional Balance at 12/31/00	6 mos of 2001	Jurisdictional Balance at 12/31/00
	(A)	(B)	(C)	(D)
		AD-021	AD-021	AD-021
5	State (excluding FAS 109)	$ (28,837)	$ 1,824	$ (27,013)
6	Federal (excluding FAS 109)	(144,538)	$ 8,815	(135,723)
7	Total (excluding FAS 109)	$ (173,375)	$ 10,639	$ (162,736)
			to AD-016,Ln 10	

ILLINOIS POWER COMPANY
Invested Capital Tax/Electric Distribution Tax
For the Twelve Months Ended December 31, 2000

Line No.	Tax Payment	Type of Payment	Check Date	Start Date	End Date	Total Days in Period	Unweighted Lead - Column (F)/2	Amount Paid	Weighting Factor	Weighted Lead
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	1st Estimated Payment	Post Paid	03/08/2000	01/01/2000	03/08/2000	67.00	33.50	$ 6,960,784	25.01%	8.3773
2		Pre Paid *(including Float)*		03/10/2000	03/31/2000	(20.55)	(10.28)			(2.5698)
3	2nd estimated payment	Post Paid	06/02/2000	04/01/2000	06/02/2000	62.00	31.00	$ 5,826,794	20.93%	6.4892
4		Pre Paid *(including Float)*		06/04/2000	06/30/2000	(25.55)	(12.78)			(2.6745)
5	2nd Estimated Payment	Post Paid	08/28/2000	07/01/2000	08/28/2000	58.00	29.00	$ 6,960,784	25.01%	7.2520
6		Pre Paid *(including Float)*		08/30/2000	09/30/2000	(30.55)	(15.28)			(3.8201)
7	4th estimated payment	Post Paid	11/27/2000	10/01/2000	11/27/2000	57.00	28.50	$ 6,960,784	25.01%	7.1270
8		Pre Paid *(including Float)*		11/29/2000	12/31/2000	(31.55)	(15.78)			(3.9452)
9	True Up Payment	Post Paid *(including Float)*	03/08/2001	01/01/2000	03/08/2001	434.45	217.22	$ 1,126,271	4.05%	8.7893
10	Total Lead Days									**25.0253**

Notes:
Average Bank Float Time based on Analysis of Check Data is: **2.45** days

ILLINOIS POWER COMPANY
Adjustment to Reflect Increased Depreciation and Amortization Expense
(Thousands of Dollars)

Line No.	Account Depreciation (A)	Adjustment (B)
1	Depreciation Expense -- Distribution Plant	
2	2001-2002 Energy Delivery Capital Additions	$ 1,834
3	2001-2002 Jurisdictional Corporate Capital Additions	-
4	Load Research Meter Project	38
5	Total	**1,872**
6	Depreciation Expense -- General Plant	
7	2001-2002 Energy Delivery Capital Additions	37
8	2001-2002 Jurisdictional Corporate Capital Additions	120
9	Plant Transferred from CWIP to In Service	148
10	Facilities No Longer in Use	(152)
11	Total	**153**
12	Amortization Expense	
13	2001-2002 Energy Delivery Capital Additions	261
14	2001-2002 Jurisdictional Corporate Capital Additions	598
15	Plant Transferred from CWIP to In Service	509
16	Total	**1,368**
17	Total Pre-Tax Adjustment	**3,393**
18	Federal Income Taxes -- 32.487%	(1,102)
19	State Income Taxes -- 7.18%	(244)
20	Net Adjustment	$ 2,047

ILLINOIS POWER COMPANY
Payroll Adjustment
(Thousands of Dollars)

Line No.	Location/Business Group	Jurisdictional Adjusted Wages	Increase in Wages effective 7/01/01	Pro Forma Wage Increase
	(A)	(B)	(C)	(D)
1	Distribution	$ 25,404	3.00%	$ 762
2	Customer Accounts	6,180	3.00%	185
3	Customer Service and Informational	4,091	3.00%	123
4	Sales	-	3.00%	-
5	Administrative and general	11,610	3.00%	348
6	Pre-Tax Total	47,285		**1,419**
7	Federal Income Taxes -- 32.487%			(461)
8	State Income Taxes -- 7.18%			(102)
9	Net Adjustment			$ 856

ILLINOIS POWER COMPANY
Adjustment to Reflect Amortization of Y2K Expense
(Thousands of Dollars)

Line No.	Account Number	Account Description	Reverse 2000 Y2K Expense	Jurisdictional Allocation	Jurisdictional Allocation of Additional Expenses	6 Year Amortization of 2000 Y2K Expense	1999 Y2K Expenses	Jurisdictional Allocation	Jurisdictional Allocation of Additional Expenses	6 Year Amortization 1999 Y2K Expenses
	(A)	(B)	(C)	(D)	(E) (C*D)	(F) (-E/6)	(G)	(H)	(I) (G*H)	(J) (I/6)
	Distribution Expenses									
1	586	Meter Expenses	$ (64)	100%	$ (64)	$ 11	$ 6	100%	$ 6	$ 1
	Customer Accounts Expenses									
2	902	Meter Reading Expenses	1	100%	1	(0)	2	59.05%	1	0
3	903	Customer Records & Collection Expense	(1)	100%	(1)	0	9	59.05%	5	1
4		Total Customer Accounts Expenses	$ 0		$ 0	$ (0)	$ 10		$ 6	$ 1
	Administrative & General									
5	920	Administrative and General Expenses	(13)	87.96%	(12)	2	395	35.36%	140	23
6	921	Office Supplies and Expenses	(13)	87.96%	(11)	2	15	46.54%	7	1
7	923	Outside Services Employed	(2)	87.96%	(2)	0	81	46.61%	38	6
8	930	Miscellaneous General Expenses	0	87.96%	0	(0)	0		-	-
9		Total Administrative & General	$ (29)		$ (25)	$ 4	$ 492		$ 185	$ 31
10		Total Pre-tax Adjustment	$ (92)		$ (88)	$ 15	$ 508		$ 197	$ 33

Line No.	Account Number	Account Description	Jurisdictional Y2K Expenses From Previous Case (Amortized Over 6 yrs)	Unamortized Y2K Expenses From Previous Case (41 Mo.)	Jurisdictional Allocation	Jurisdictional Allocation of Additional Expenses	6 Year Amortization of Unamortized Expense	Jurisdictional Pro Forma Adjustment
			(K)	(L)	(M)	(N) (L*M)	(O) (N/6)	(P) (C+F+J+O)
	Distribution Expenses							
11	586	Meter Expenses			100%	$ -	$ -	$ (52)
	Customer Accounts Expenses							
12	902	Meter Reading Expenses						1
13	903	Customer Records & Collection Expense	6	3	59.05%	2	0	0
		Total Customer Accounts Expenses	$ 6	$ 3		$ 2	$ 0	$ 2
	Administrative & General							
14	920	Administrative and General Expenses	999	569	35.36%	201	34	46
15	921	Office Supplies and Expenses	36	21	46.54%	10	2	(8)
16	923	Outside Services Employed	984	560	46.61%	261	44	48
17	930	Miscellaneous General Expenses				-	-	0
		Total Administrative & General	$ 2,019	$ 1,150		$ 472	$ 79	$ 85
18		Total Pre-tax Adjustment	$ 2,025	$ 1,153		$ 474	$ 79	$ 35
19	409	Federal Income Taxes -- 32.487%						(11)
20	409	State Income Taxes -- 7.18%						(2)
21		Net Adjustment						$ 22

Adjustment Description: To reverse expenses associated with Y2K preparation and to amortize these costs over six years

IP Exhibit 1.46

ICC Docket No. 99-0419
Staff Data Request DLH-005

Request DLH-005: In reference to Exhibit 1.0, pages 12 and 13, questions 27 through 29, is it the Company's position that transaction costs with respect to Illinois Power's electric utility delivery services operations portion of the reorganization will be recorded at the holding company level, and therefore not be included in IP's electric delivery services operating expenses? If not, explain what the Company's position is regarding these costs.

Response: Currently the Company is recording expenses associated with the Dynegy/Illinova merger to projects which are ultimately recorded at the holding company level. In this proceeding, the Company has made the commitment to not seek to recover from retail gas customers any merger related transactions costs or expenses that would be allocable to the gas business. This commitment was necessary to directly address specific findings the Commission must make under Section 7-204. The Company has not made such a decision regarding the costs which would be allocated to the electric business. Relevant issues regarding the impact of the merger on the Company's electric rates are addressed in the company's 16-111(g) filing.

IP witness responsibility:	Larry F. Altenbaumer
IP Contact:	Kevin Shipp
	217.424.6923

ILLINOIS POWER COMPANY
Average Incentive Compensaton Expense
For the Years 1996 Through
2000

Line No.	Function	1996	1997	1998	1999	2000	5-Year Average
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Distribution O&M	$ 402,413	$ 151,587	$ 80,572	$ 2,063,848	$ 1,961,779	$ 932,040
2	Customer Accounts	158,711	58,324	26,265	694,264	477,203	282,953
3	Customer Service and Informational Services	7,495	1,023	474	20,726	296,952	65,334
4	A&G	801,132	1,049,617	2,120,074	1,584,963	2,422,537	1,595,665
5	Total	$ 1,369,751	$ 1,260,551	$ 2,227,385	$ 4,363,801	$ 5,158,471	$ 2,875,992
6	Amount included in Test Year Expense			$ 5,158,471			
7	Five-Year Average			2,875,992			
8	Reduction in Test Year Incentive Compensation Expense			$ 2,282,479			

ILLINOIS POWER COMPANY
Calculation of One-half of Test Year Incentive Compensation Expense
For the Twelve Months Ended December 31, 2000

Line No.	Function	2000
	(A)	(B)
1	Distribution O&M	$ 1,961,779
2	Customer Accounts	477,203
3	Customer Service and Informational Services	296,952
4	A&G	2,422,537
5	Total	$ 5,158,471
6	Amount included in Test Year Expense	$ 5,158,471
7	One-half of Test Year Expense	2,579,236
8	Reduction in Test Year Incentive Compensation Expense	$ 2,579,236

ILLINOIS POWER COMPANY
Comparison of 2001 Budgeted Incentive Compensation to Test Year Expense
(Thousands of Dollars)

Line No.	Function	Jurisdictional Electric Distribution 2001 Budgeted Incentive Compensation
	(A)	(B)
1	Distribution O&M	$ 2,145
2	Customer Accounts	522
3	Customer Service and Informational Services	325
4	A&G	1,104
5	Total	$ 4,095
6	Amount included in Test Year Expense	$ 5,158
7	Budgeted 2001 Incentive Compensation Expense	4,095
8	Reduction in Test Year Incentive Compensation Expense	$ 1,064

ILLINOIS POWER COMPANY
Adjustment to Increase Base Wage Expense Without Incentive Compensation
(Thousands of Dollars)

Line No.	Description	Total Company Amount	Expense Percentage	Functionalized Expense	Electric Distribution Percentage	Additional Electric Distribution Base Wage Expense
	(B)	(C)	(D)	(E)	(F)	(G)
1	Increased Base Wages & Associated Expenses	$ 6,984,699	79.80%	$ 5,573,679	57.90%	$ 3,227,160

ILLINOIS POWER COMPANY
Analysis of Electric A and G Expenses
For the Twelve Months Ended December 31, 1997 through 2000

Line No.	FERC Account No.	Account Title	Twelve Months Ended December 31, 1997	1998	1999	2000	Increase/Decrease From 12/31/97 to 12/31/00
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	920	Administrative and General Salaries	$ 20,028,639	$ 20,428,877	$ 25,692,502	$ 25,365,371	26.65%
2	921	Office Supplies and Expenses	13,251,469	12,410,472	13,565,522	7,145,132	-46.08%
3	922	Administrative Expenses Transferred - Credit	(5,746,149)	(6,389,092)	(5,811,844)	(23,903,577)	315.99%
4	923	Outside Services Employed	10,596,158	17,409,870	14,827,592	35,837,420	238.21%
5	924	Property Insurance	2,682,514	972,372	(964,286)	(1,598,760)	-159.60%
6	925	Injuries and Damages	4,178,703	6,185,884	6,823,697	11,237,367	168.92%
7	926	Employee Pensions and Benefits	22,187,712	28,160,716	24,121,748	12,644,167	-43.01%
8	927	Franchise Requirements	8,241,858	8,360,998	8,470,098	8,568,799	3.97%
9	928	Regulatory Commission Expenses	438,145	310,004	649,183	189,836	-56.67%
10	929	Duplicate Charges - Cr.	(8,241,858)	(8,360,998)	(8,470,098)	(8,568,799)	3.97%
11	930.1	General Advertising Expenses	45,998	11,607	59	-	-100.00%
12	930.2	Miscellaneous General Expenses	2,210,993	2,916,081	3,418,776	1,264,808	-42.79%
13	931	Rents	3,193,079	3,401,674	3,594,639	2,934,086	-8.11%
14	935	Maintenance of General Plant	523,876	719,886	848,369	519,185	-0.90%
15			$ 73,591,137	$ 86,538,351	$ 86,765,957	$ 71,635,035	

ILLINOIS POWER COMPANY
Summary of Changes in Headcount
For the Years Ended December 31,

Line No.	Function/Business Unit	As of December 31, 1997	1998	1999	2000
	(A)	(B)	(C)	(D)	(E)
1	Clinton Nuclear Power Station	873	924	1	-
2	Fossil Generating Stations	451	506	-	-
3	Distribution & Transmission Functions	1,880	1,916	1,945	1,749
4	Administrative and General Functions				
5	Administrative Services	29	30	30	25
6	Advanced Technology and Applications	6	6	7	-
7	Audit and Compliance Services	12	11	5	-
8	Regulatory/Business Development Services (Rates)	16	14	18	30
9	Business Planning and Strategy	-	-	-	2
10	Dynegy	-	-	5	1
11	Employee Services/Human Resources	53	56	52	25
12	Financial Business Group (includes Execs)	80	85	70	36
13	Financial/Legal Business Group	2	3	2	-
14	General Activities	4	5	8	5
15	Illinova University	6	10	8	-
16	Information Technology	191	203	194	145
17	Legal Services	24	29	30	12
18	Process Support Services	-	-	2	1
19	Public Affairs	19	22	24	2
20	Risk Mitigation	-	-	4	4
21	Support Services Business Group	1	1	2	-
22	Total	443	475	461	288
23	Total Company	3,647	3,821	2,407	2,037

ILLINOIS POWER COMPANY
Comparison of IP's A and G Costs
For the Twelve Months Ended December 31,

Line No.	Function	1997	2000	Increase/(Decrease)
	(A)	(B)	(C)	(D)
1	President/CEO/COO	$ 1,330	$ 943	$ (387)
2	Financial	8,925	2,411	(6,514)
3	Legal	6,089	2,798	(3,292)
4	Human Resources	3,695	1,218	(2,478)
5	Information Technology	20,323	24,569	4,246
6	Communications	5,923	4,905	(1,018)
7	Administration	2,372	509	(1,863)
8	Total	$ 48,658	$ 37,352	$ (11,305)

HIGHLY CONFIDENTIAL
ILLINOIS POWER COMPANY
Summary of Total Company Allocations from Dynegy
For the Twelve Months Ended December 31, 2000
(000s)

Line No.	Group (A)	Amount Allocated to IP (Excluding Bonuses) (B)	Allocation to the Electric Business (C)	Electric Amount (D)	Allocation to Electric Distribution (E)	Electric Distribution Amount (F)
1	President/CEO/COO	xxxx	71.44%	xxxx	87.96%	xxxx
2	Financial	xxxx	71.44%	xxxx	87.96%	xxxx
3	Legal	xxxx	71.44%	xxxx	87.96%	xxxx
4	Human Resources	xxxx	71.44%	xxxx	87.96%	xxxx
5	Information Technology	xxxx	71.44%	xxxx	87.96%	xxxx
6	Communications	xxxx	71.44%	xxxx	87.96%	xxxx
7	Administration	xxxx	71.44%	xxxx	87.96%	xxxx
8	Total	$ -		$ -		$ -

ILLINOIS POWER COMPANY
Description of Services Provided by Dynegy

ILLINOIS POWER COMPANY
Summary of Services Provided by IP to AmerGen
For the Twelve Months Ended December 31, 2000

Line No.	Description of Services Provided (A)	Billed Amount (B)
1	Fixed Fee Services	$ 4,834,409
2	Volume Based Services	3,882,542
3	Quarterly True-up Information Tech	(656,198)
4	3rd Party Software Licenses	1,406,409
5	Non-3rd Party Software Licenses	113,131
6	Cellular Phones	62,958
7	Pager Service	72,085
8	Long Distance	199,378
9	Travel Expenses	150
10	Safety & Health Services	100,831
11	Miscellaneous Charges	10,320
12	Adjustments	373,510
13	Real Estate Tax: Clinton Plant 1999	760,822
14	Total	$ 11,160,347

ILLINOIS POWER COMPANY
Summary of Services/Charges from IP to IPMI
For the Twelve Months Ended December 31, 2000

Line No.	Description of Services/Charges	Total Billings
	(A)	(B)
1	IP Employee Time and Expenses	$ 2,658,575
2	IP Overheads	4,801,810
3	Shared Assets	2,913,284
4	Gas Used for Generation	1,181,325
5	Insurance Premiums/Claims	(505,190)
6	Other Charges/(Credits)	(1,516,050)
		$ 9,533,754

ILLINOIS POWER COMPANY
Summary of Services/Charges Provided by IP to Dynegy
For the Twelve Months Ended December 31, 2000

Line No.	Description of Services/Charges (A)	Total Billings (B)
1	IP Employee Time and Expenses	$ 1,784,430
2	IP Overheads	1,258,520
3	IT Charges	663,584
4	Outside Professional Services	7,213
5	Other Charges/(Credits)	4,100
6	Total	$ 3,717,846

ILLINOIS POWER COMPANY
Five-Year History of Injuries and Damages Expense
(Thousands of Dollars)

Line No.	Account No.	Project Title	1996	1997	1998	1999	2000	Five-Year Average
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	925	Total Electric Injuries and Damages	$ 5,980	$ 4,179	$ 6,186	$ 6,824	$ 11,237	$ 6,881
2		Allocation to Electric Distribution	87.96%	87.96%	87.96%	87.96%	87.96%	
3		Electric Distribution Injuries and Damages Expense	$ 5,260	$ 3,676	$ 5,441	$ 6,002	$ 9,884	$ 6,053

ILLINOIS POWER COMPANY
Adjustment to Amortize Claims Accrual
(Thousands of Dollars)

Line No.	Account No.	Project Title	Amount Included in Test Year	Functionalization Percentage	Functionalized Expense	Amortization Period	Amortized Amount to be Included in Test Year	Net Adjustment
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1	925	Litigation Accrual	$ 5,500	87.96%	$ 4,838	3	$ 1,613	$ (3,225)

ILLINOIS POWER COMPANY
Adjustment to Amortize Certain Outside Legal Expenses
(Thousands of Dollars)

Line No.	Account No. (A)	Project Title (B)	Amount Included in Test Year (C)	Functionalization Percentage (D)	Functionalized Expense (E)	Amortization Period (F)	Amortized Amount to be Included in Test Year (G)	Net Adjustment (H)
1	923	Duke Engineering Litigation	$ 1,171	87.96%	$ 1,030	3	$ 343	$ (687)

Illinois Power Company
General Plant Accounts 389 - 398 - SUMMARY
Dedicated General Plant for Fossil and Other Production Facilities
Based on Plant and Reserve Balances as of 12/31/98

Summary of General Plant:

		Plant Investment			CWIP		Accumulated	Net
		Acct. 101	Acct. 106	Total	Acct. 107	Total	Depreciation	Book
Land & Land Rights	389.0	-	-	-	-	-	-	-
Structures & Improvements	390.0	1,186	483,420	484,606	6,671	491,277	(15,739)	475,538
Office Furniture & Equip	391.0	483,178	74,932	558,110	34,693	592,803	(94,959)	497,844
PC and Computing Equipment	391.1	2,670,332	58,349	2,728,681	240,078	2,968,759	(453,432)	2,515,327
Main Frame Computers	391.2	-	-	-	-	-	-	-
Transporation Equipment	392.0	1,003,363	17,107	1,020,471	15,381	1,035,852	(282,106)	753,746
Stores Equipment	393.0	180,051	-	180,051	-	180,051	(75,095)	104,956
Tools, Shop, & Gar. Equip.	394.0	2,752,002	33,759	2,785,761	34,571	2,820,332	(860,000)	1,960,332
Laboratory Equipment	395.0	1,033,412	-	1,033,412	6,718	1,040,130	(458,598)	581,532
Power Operated Equip	396.0	40,675	-	40,675	7,228	47,903	(17,911)	29,993
Communication Equipment	397.0	587,794	-	587,794	30,213	618,007	(199,719)	418,288
Misc. Equipment	398.0	266,272	-	266,272	108,198	374,470	(48,349)	326,121
Total		**9,018,265**	**667,567**	**9,685,833**	**483,753**	**10,169,585**	**(2,505,907)**	**7,663,678**

Note: Supporting details are maintained in the Continuing Property Record system and by work order for projects complete but not unitized.

ILLINOIS POWER COMPANY
DEDICATED ASSETS FOR FOSSIL AND OTHER PRODUCTION FACILITIES
ACCOUNT 101 - 303.0 INTANGIBLE PLANT
DATA AS OF DECEMBER 31, 1998

Vintage Year	ITEM DESCRPN	Plant in Service Amount	Estimated Depreciation Reserve Factor	Accumulated Amortization	Net Book
1995	HE -TRIM, TNG RECORDS SOFTWARE	8,566	70%	5,996	2,570
1996	PPMPS CONVERT TO DB2	894,778	50%	447,389	447,389
1997	VOICEMAIL - VE PP	31,138	30%	9,341	21,797
1997	VOICEMAIL - TRANSFER	(31,138)	30%	(9,341)	(21,797)
1997	VN PP - VOICEMAIL	31,138	30%	9,341	21,797
1996	EQUIP TAGOUT SYS	24,919	50%	12,460	12,459
1997	BA MERIDIAN MAIL SYS	31,029	30%	9,309	21,720
1996	ELECTRONIC REQ TRACKING	62,189	50%	31,094	31,095
1997	OSHA TNG TOOLS	41,973	30%	12,592	29,381
1997	PPS-PREDICT MAINT SYS	5,013	30%	1,504	3,509
1997	WR - OPS TNG TOOL	23,085	30%	6,926	16,159
1994	MERIDIAN VOICE MAIL	14,861	90%	13,375	1,486
1995	TRAINING ADMINISTRATOR 2.1 SYSTEM	7,870	70%	5,509	2,361
1994	SOFTWARE "MAINPLAN" & "PROMOD IV"	143,985	90%	129,587	14,398
1994	BA SHIFT TECH TRAINING PROGRAM.	542,398	90%	488,158	54,240
	Total Intangible Plant - Acct. 303	**1,831,804**		**1,173,240**	**658,564**